FOR YOU AND YOUR CHILDREN: GUARANTEEING THE FUTURE OF THE QUÉBEC PENSION PLAN

A Reform of the
Québec Pension Plan

Working Paper

Québec

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Message from the Minister

Preparing now for future retirement

I am proud to present you with this working paper on the future of the Québec Pension Plan. It shows the Québec government's willingness to act in order to ensure the financial security of current and future retirees. It urges us to act now and stop putting off the steps that should be taken without further delay.

The proposals presented in it are aimed at guaranteeing the financing of the Québec Pension Plan and the establishment of fairness between the generations of contributors. The costs associated with an aging population require us to rapidly take the necessary measures. The Québec government is considering several options for reaching its goal. Several proposals are submitted for discussion: raising the contribution rate, increasing the number of workers covered by the Plan and establishing a greater degree of fairness between some groups of beneficiaries. These measures will make it possible to bring the Québec Pension Plan's financing back into balance and to ensure that the Quebeckers who reach retirement in coming decades will receive the retirement pension that is provided for under the Plan. These proposals are based on fairness, solidarity and responsibility.

The federal government has announced that beginning in 2001, the Old Age Security pension and the Guaranteed Income Supplement will be replaced by the Seniors Benefit. The new measure, which ties the aggregate total of retirement benefits to the amount of income from other sources, is likely to have important repercussions for subsequent generations of seniors. It is important to point them out, discuss them and show how they will affect Quebeckers.

I urge all citizens and the groups that represent them to examine the options that are proposed in this working paper and to prepare their comments for the parliamentary committee which will consider the matter in the fall of 1996. The results of these discussions will guide us in the choices that we must make to guarantee the future of the Québec Pension Plan.

LOUISE HAREL
Minister of State for Employment and Solidarity
Minister responsible for the Status of Women
Minister of Income Security, Youth, the Family and
Independent Community Action

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Introduction

In this working paper, the Québec government puts forward various options for guaranteeing the future of the Québec Pension Plan and for ensuring fairer Plan financing. It is made up of three main chapters.

The first chapter briefly describes the current system of retirement income security in Québec. The system is compared to a three-storey house each floor of which corresponds to a specific type of security measure.

Federal assistance measures include:

- the Old Age Security pension, the Guaranteed Income Supplement, the Spouse's Allowance and the coming Seniors Benefit, which is scheduled to begin in 2001.

Insurance measures include:

- the Québec Pension Plan;
- private retirement savings instruments, such as supplemental pension plans and registered retirement savings plans (RRSPs).

Chapter 2 covers the Québec Pension Plan and its financing. It first describes the economic and demographic context in which the Plan has developed over the past 30 years and the factors that have led to increased costs. In a detailed way, problems of fairness between generations of contributors, reduced confidence in the future of the Plan, Plan participation by low-income workers and the difference between contributory earnings and the earnings on which benefits are calculated are discussed. After stating the principles behind the Québec Pension Plan, various options for guaranteeing the Plan's future are presented. These options are a large increase in the contribution rate, broadening the contributory base, setting an appropriate level for the reserve and restructuring benefits.

Chapter 3 covers the new Seniors Benefit, which is scheduled to begin in 2001, and its impact on retirement income.

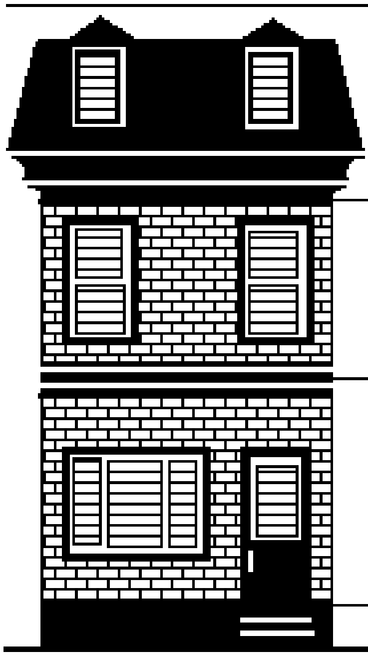
For a rapid overview of this working paper, the reader can consult the summary that concludes each chapter.

Chapter 1

Retirement income security in Québec

1• Sources of retirement income

The current system of retirement income security in Québec can be compared to a three-storey house. The first floor is made up of assistance measures administered by the federal government—the Old Age Security pension, the Guaranteed Income Supplement, the Spouse’s Allowance and the coming Seniors Benefit. The second floor is the Québec Pension Plan, and the third floor includes supplemental pension plans and registered retirement savings plans (RRSPs). The measures on the second and third floors are insurance measures.



	Measures	Financing	
3rd	Private pension plans: • registered retirement savings plans; • supplemental pension plans.	• Worker contributions • Worker and employer contributions	Insurance
2nd	Québec Pension Plan; Canada Pension Plan.	Worker and employer contributions on the total contributory payroll.	
1st	Guaranteed Income Supplement; Old Age Security Pension; Spouse's Allowance; Seniors Benefit, beginning in 2001.	Income taxes. (Consolidated revenue fund of the federal government)	Assistance

Assistance measures

The main purpose of assistance measures is to combat poverty by coming to the aid of older citizens whose incomes are insufficient. There are no funds specifically earmarked for financing these measures; they are financed by the federal government’s consolidated revenue fund, that is, by income taxes. Therefore, they depend directly on the state of public finances and federal government priorities for allocating financial resources.

The *Old Age Security Act* provides for three assistance measures—the Old Age

Security pension (OAS), the Guaranteed Income Supplement (GIS) and the Spouse's Allowance. Beginning in 2001, however, the OAS and the GIS will be replaced by the Seniors Benefit.

The first floor: federal assistance measures

Old Age Security pension

The Old Age Security pension is a flat allowance that is adjusted quarterly to reflect changes in the Consumer Price Index and paid to all Canadian citizens aged 65 or over who meet the residence conditions. In 1995, the annual maximum Old Age Security pension was 4 690 $.

The pension was universal until 1989; since then, part of the benefit is recovered from persons whose annual income exceeds a certain limit.

Guaranteed Income Supplement

The Guaranteed Income Supplement is for the low-income seniors among the beneficiaries of the Old Age Security pension. The benefit depends on income and family situation; benefits are indexed quarterly to inflation. In 1995, the maximum annual benefit was 5 574 $ for a single person and 3 361 $ for a person living in a conjugal relationship. In Québec, half of those aged 65 or over receive Guaranteed Income Supplement benefits.

The Guaranteed Income Supplement is an assistance measure. The amount paid decreases when a single person or a couple are able to meet their needs in some other way. Guaranteed Income Supplement benefits are reduced by 50 cents for each dollar of income from another source. As income increases, the Guaranteed Income Supplement decreases.

Spouse's Allowance

The Spouse's Allowance is paid to some people between 60 and 64 years of age and ends when the beneficiary turns 65. To receive benefits, a person must have a spouse aged 65 or over who receives an Old Age Security pension or be a widow or widower.

The Spouse's Allowance depends on income and family situation. In 1995, the maximum annual benefit for a widow or widower was 9 186 $; for the spouse of the beneficiary of an Old Age Security pension, it was 8 321 $.

Seniors Benefit

In 2001, a new program called the Seniors Benefit will replace the Old Age Security pension and the Guaranteed Income Supplement as well as the tax credits for age and pension income.[1] The Seniors Benefit will be based on family income and will be aimed at middle- and low-income couples and single persons.

Like the Old Age Security pension, the Seniors Benefit will be paid to people aged 65 or over. People who were already aged 60 or over on 31 December 1995 and their spouses, regardless of age, will have the option of receiving benefits either under the new program or under the current Old Age Security program.

Insurance measures

The purpose of insurance measures is to provide an income level that maintains to some extent the pre-retirement employment income level and prevents an unacceptable decrease in the standard of living after retirement. This type of measure (except for RRSPs) is financed by contributions made to a pension fund by workers and employers. The savings in the fund are later used to pay pensions to retirees. Workers generally contribute for 35 to 40 years to receive a pension for the rest of their lives, on average, for about 15 to 20 years. A personal account is kept for each member of a pension plan and is used to record his or her contributions, accumulated assets or the earnings that will serve to calculate the pension. Unlike assistance measures, these benefits do not depend on the individual's or couple's other income. Entitlement to a pension depends solely on the contributions made to the plan. Insurance measures include the Québec Pension Plan and private pension plans.

The second floor: The Québec Pension Plan

The Québec Pension Plan, like the Canada Pension Plan, its counterpart elsewhere in

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1. The Spouse's Allowance will not be absorbed by the Seniors Benefit.

Canada, is a public retirement savings plan based on contributions that are made equally by workers and employers. It covers all workers whose annual earnings are more than 3 500 $ in 1996.

The contribution rate is 5,6% of pensionable earnings, up to a maximum contribution of 1 786,40 $ in 1996. Half this amount, 893,20 $, is paid by the worker and the other half by the employer.

The Québec Pension Plan provides financial protection from the loss of employment earnings resulting from disability, retirement or death. The retirement pension paid at age 65 under the Plan is equal to 25% of the contributor's average pensionable earnings, up to an annual maximum pension which, in 1996, is 8 725 $.

On 31 December 1995, the Québec Pension Plan's fund amounted to 15,2 billion $, deposited in the general fund of the Caisse de dépôt et placement du Québec. More than three million workers contributed to the Plan in 1995; there were more than a million beneficiaries and 757 000 of them were receiving a retirement pension. In 1995, 4,7 billion $ in benefits were paid out—3,2 billion $ for retirement pensions, 1,1 billion $ for surviving spouse's pensions and death benefits, and 400 million $ for disability pensions.

The third floor: private pension plans

Private pension plans include supplemental pension plans (also known as company plans) and registered retirement savings plans (RRSPs).

Supplemental pension plans

Supplemental pension plans are generally set up by employers on a voluntary basis. They are contracts under which workers and their employer (sometimes the employer alone) periodically deposit an amount of money in a pension fund. Such plans are subject to tax rules and are governed by the *Supplemental Pension Plans Act*, which is administered by the Régie des rentes du Québec. Similar legislation exists in most of the other Canadian provinces as well as at the federal level. Public sector employees are generally covered by specific legislation.

In Québec, there are around 4 500 plans, in which some 1 360 000 workers participate. Some 2 500 plans covering 500 000 members are under the supervision of the Régie des rentes du Québec.

About 50% of Québec workers are covered by supplemental pension plans, but plan participation rates vary greatly by sector of activity:

- almost all public sector workers are members of a supplemental pension plan;
- only a third of private sector workers are covered.

Even within the private sector, there are wide differences:

- in large companies, half the workers are members of supplemental pension plans;
- in small and medium-sized businesses, only 5% of the workers are covered.

Registered retirement savings plans

Registered retirement savings plans (RRSPs) are personal plans whose rules are set by the *Income Tax Act.* The purpose of RRSPs is to encourage workers to put aside money for retirement by allowing them to defer the payment of income tax on the amounts put aside.

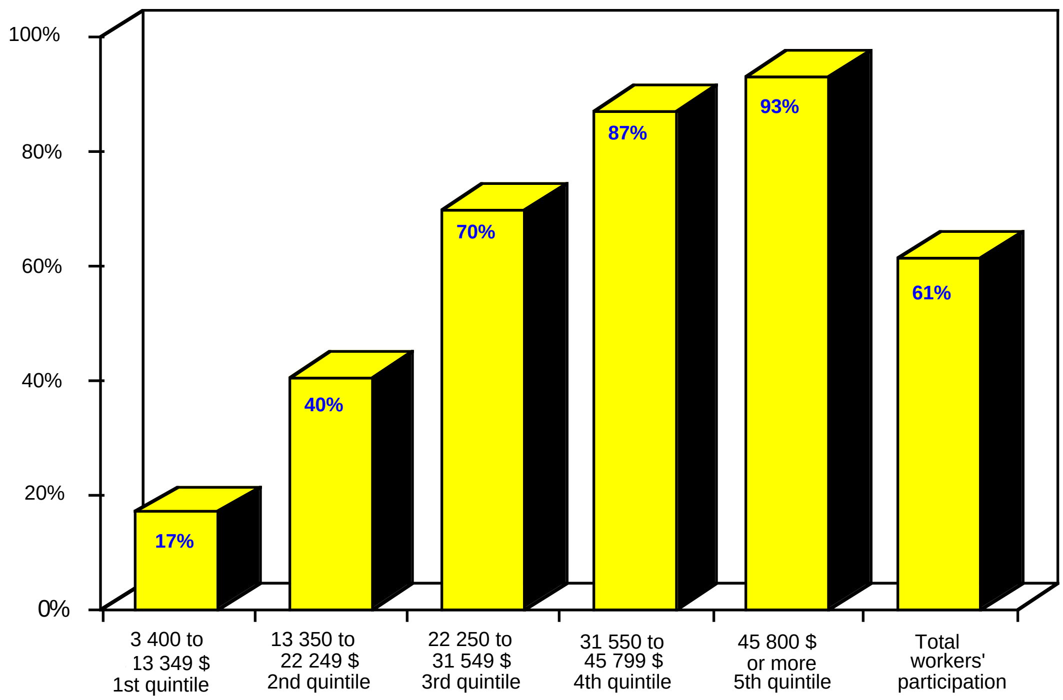
Contributions made to an RRSP can be deducted from taxable income up to a maximum of 18% of the previous year's income less any contributions to a supplemental pension plan. The RRSP contribution ceiling in 1996 is 13 500 $ and any unused contribution room can be used in later years.

Unlike a supplemental pension plan, an RRSP is not locked-in; the funds can be withdrawn before retirement, at any time.

Overall, six Québec workers out of ten contribute to a supplemental plan or an RRSP or both. However, participation rates vary greatly according to income, as the following chart shows.

Chart 1

Participation rates of workers* in private pension plans according to total income in 1994



* A worker is any person who contributed to the Québec Pension Plan in 1994, that is, whose earnings were more than that year's basic exemption of 3 400 $.

Among high-income workers (the richest 20%, that is, the fifth quintile), the rate of participation in private pension plans reaches 93%, and almost half of these workers (42%) contribute both to a supplemental pension plan and to an RRSP.

Among low-income workers (the poorest 20%, that is, the first quintile), the proportion participating in private pension plans is only 17%, and less than 1% contribute to both a supplemental pension plan and an RRSP.

Among middle-income workers (between 22 250 $ and 31 549 $, that is the third quintile), the participation rate in private pension plans reaches 70%, and 17% of them contribute to both supplemental plans and RRSPs.

Not all workers who are members of a pension plan will accumulate an adequate pension, that is, a pension that, when added to their Québec Pension Plan benefits, replaces 70% of their pre-retirement employment earnings.

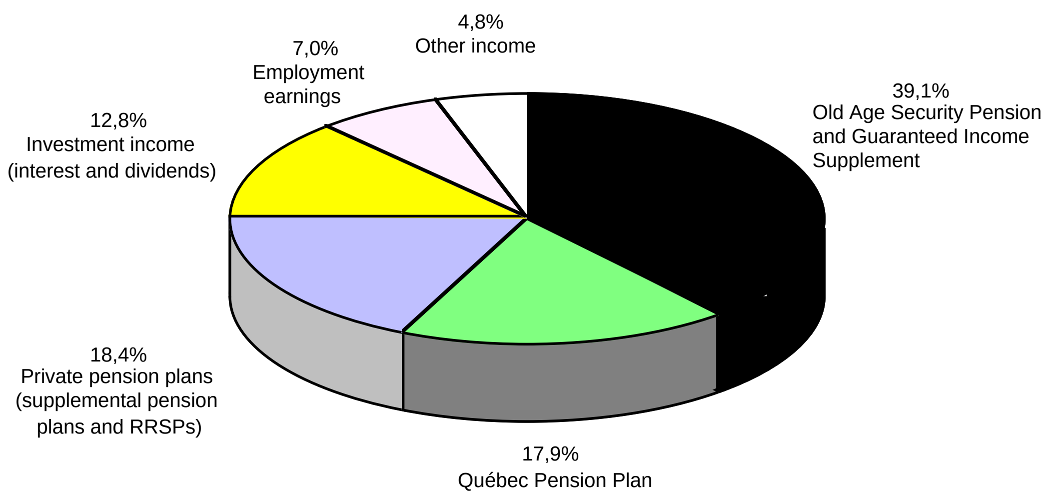
Overall, four Québec workers out of ten are not covered by any private pension plan and after retiring will only have benefits from the Québec Pension Plan and federal assistance measures as income sources.

2• The income of persons aged 65 or over in Québec

Studies show that in 1993, 39% of the total income of persons aged 65 or over came from assistance measures (Old Age Security pension and Guaranteed Income Supplement). The Québec Pension Plan and private pension plans (supplemental pension plans and RRSPs) each accounted for 18% of the total. This is illustrated in Chart 2.

Chart 2

Sources of income of persons aged 65 or over in Québec in 1993



Source: Statistics Canada, Survey of Consumer Finances.

In Québec, the average annual income of persons aged 65 or over was 16 220 $ in 1993, representing an average of 20 800 $ for men and 12 960 $ for women.

Overall, 66% of Quebeckers aged 65 or over had an annual income of less than 15 000 $. More specifically, this was the situation of 78% of the women and 47% of the men.

However, the financial situation of seniors has improved significantly compared to the situation of the population as a whole. Table 1 compares changes in average individual income between 1981 and 1993. Persons aged 65 years or over are the only group whose real income increased significantly during this period.

Table 1

Changes in average real income of Quebeckers by age group

	Average income in 1993 dollars		
Age group	1981* $	1993 $	Average annual increase %
18 to 34	18 700	17 215	- 0,6
35 to 64	24 475	25 035	+ 0,2
65 and over	14 014	16 220	+ 1,2
Total	20 752	21 115	+ 0,1

* Average income for 1981 was increased by 73% to convert it to 1993 dollars. The increase corresponds to the increase in the Consumer Price Index during the intervening period.

Source: Statistics Canada, Survey of Consumer Finances.

Between 1981 and 1993, the income of people aged 65 years or over increased at an average annual rate equal to the inflation rate plus 1,2%, compared with an increase over inflation of only 0,2% for the group aged 35 to 64. For young people under age 35, income increased more slowly than the inflation rate.

The improvement in the financial situation of seniors is attributable to the increasing role played by the Québec Pension Plan and private pension plans. The proportion of people aged 65 or over who receive a pension from the Québec Pension Plan increased from 47% in 1981 to 70% in 1993. During the same period, the number of people receiving benefits from a private pension plan increased from 23% to 34%.

The financial situation of seniors will continue to improve in future because pension plans have not yet reached their maturity. In 30 years, 90% of seniors are expected to be beneficiaries of the Québec Pension Plan and 60% will receive benefits from a private pension plan. However, since only six out of ten workers participate in a supplemental pension plan or an RRSP, assistance measures will continue to be very important for Quebeckers who do not contribute to a private plan.

3• Labour market changes

Labour market changes influence the financial planning of workers and the way in which they retire from an economically active life. Such changes are reflected, for example, in the restructuring of businesses and reductions of labour costs, the increase in insecure or part-time jobs, high unemployment rates and the decrease in the labour force participation rate of workers nearing the end of their careers.

The Québec economy, like those of Western countries in general, has been witness in recent years to the creation of many more part-time, temporary, casual and seasonal jobs than ever before. From 1976 to 1995, the proportion of part-time jobs more than doubled in Québec, increasing from 7% to 16%. In 1995, one worker in six held a part-time job; 40% of those jobs were held by young workers under 25 years of age and 23 % were held by workers aged 45 or over. Although part-time work at the end of one's career is a recent phenomenon,[1] it is an interesting possibility for workers who want to withdraw progressively from the labour force in view of retirement or who simply want to supplement their income.

Business restructuring has also led to a significant reduction in the presence of career-end workers in the labour force and a lowering of the real retirement age.[2] Early retirement has become a means for businesses to reduce labour costs. Consequently, there is a greater proportion of workers who leave the labour force early. The participation rate for workers aged 55 to 64 years has decreased considerably since 1981, dropping from 56% to 42%. The rate for workers aged 65 or over has also dropped sharply, from 11% in 1981 to 4% in 1995.

Public retirement savings plans like the Québec Pension Plan must adapt to these new conditions so that workers can build pension benefits during periods in which they work part-time or for low income. Older workers who have opted for early retirement and who later decide to work again must be allowed to build additional benefits to increase their retirement pensions when they definitively withdraw from the

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1. Schellenberg, Grant. *The Road to Retirement: Demographic and Economic Changes in the 90s.* International Statistics Centre, Canadian Council on Social Development, 1994, p. 46.

2. *Ibid.*, pp. 16 to 20. The national survey on aging and autonomy confirmed that early retirement has been an important feature in labour market changes during the last 20 years.

labour force.

Furthermore, although unemployment hits young workers harder (17,0% of those under age 25 in 1995), no age group is spared, not even career-end workers. Among workers aged 55 to 64, the unemployment rate reached 11,3% in 1995. Moreover, periods of unemployment are quite long for unemployed workers aged 45 or over. In 1995, their unemployment period was 37 weeks on average, compared with 28 weeks for unemployed workers from 25 to 44 years of age and 17 weeks for those aged 15 to 24.

This situation means that workers often withdraw their retirement savings long before the normal retirement age. A study by Statistics Canada shows that more and more Canadians who have RRSPs make withdrawals before the normal retirement age.[1] In 1991, for example, some 604 000 Canadians under 65 years of age withdrew almost 3,2 billion $ from their RRSPs, an increase of 27% over the preceding year.

In Québec, between 1990 and 1993, the number of persons under 60 years of age who made withdrawals from RRSPs increased from 88 000 to 111 000, and the amounts withdrawn increased from 432 million $ to 598 million $. The largest increase in the number of persons making withdrawals occurred in the 45-to-59 age group, where the number rose by 50% and the amounts withdrawn increased by 73%.

Since other sources of retirement income, like RRSPs, are used for other purposes and withdrawn well before retirement, it is even more important to ensure that public plans, like the Québec Pension Plan, remain in place in future to guarantee a basic retirement pension for people 60 years of age or over.

In addition, the Québec Pension Plan has three other characteristics that supplemental pension plans do not have:

- it covers all sectors of the economy;
- it protects part-time and self-employed workers;
- it is completely portable from one job to another, with no loss of benefits.

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[1]. Frenken Hubert and Standish Linda : “Qui retire son REER?”, in *L'emploi et le revenu en perspective*, Catalogue 75-001-F, Statistics Canada, Ottawa, spring 1994, pp. 44 to 47. (Also published in English, under the title “RRSP Withdrawals” in *Perspectives on Labour and Income*.)

SUMMARY

Elements of the current system

The current system of retirement income security has three components:

- Federal assistance measures, which comprise the Old Age Security pension (OAS), the Guaranteed Income Supplement (GIS) and the Spouse's Allowance. The OAS and the GIS and income tax credits for age and pension income will be replaced by the Seniors Benefit, beginning in 2001.
- The Québec Pension Plan, which is a public retirement savings plan, has assets of 15,2 billion $ on deposit in the general fund of the Caisse de dépôt et placement du Québec.
- Private pension plans, that is, supplemental pension plans and RRSPs.

Salient facts

- In Québec, people 65 years of age or over are very dependent on federal assistance measures. In 1993, 39% of their total income came from the Old Age Security pension and the Guaranteed Income Supplement, and 50% of Quebeckers aged 65 or over receive the Guaranteed Income Supplement.

- The financial situation of seniors has improved significantly because of the increasing role played by the Québec Pension Plan and supplemental pension plans.

- Participation in private pension plans varies considerably according to income. After retirement, about 40% of Québec workers will be totally dependent on public pension plans and federal assistance measures.

Chapter 2

Guaranteeing the future of the Québec Pension Plan and ensuring fairer financing

Financing the Québec Pension Plan

Public retirement savings plans are not financed like private plans. Pursuant to the *Supplemental Pension Plans Act*, the latter must be fully funded, that is, funds must be put aside every year to meet plan obligations. Full funding is necessary since in the event a plan's sponsor ceases its activities, there will be no future members to pay retirees' pensions.

In a public retirement savings plan covering all workers, the situation is different. There will always be workers contributing to the plan, thus ensuring its continuation. Therefore, full funding is not necessary and, in fact, no country fully funds its public retirement savings plan.

In 1963, the Interdepartmental Study Committee on the Québec Pension Plan, whose report laid the groundwork for the Québec Pension Plan, recommended a partial funding scheme that would have allowed a uniform contribution rate over a very long period. In the proposed system, a large reserve would have accumulated, allowing the contribution rate to remain unchanged almost indefinitely. The reserve would have increased continuously during the first 50 years. After 30 years, it would have been about 15 times greater than the cash outflow for the following year. This would have been a funding level of about 50%, which would have been very high for a public retirement savings plan. To reach the objective, the Committee proposed, among other steps, that the contribution rate be higher in the beginning (4%) and a longer transition period.[1]

For the Canada Pension Plan, the federal government advocated a pay-as-you-go funding scheme, which would have had an insignificant reserve. In such a system, contribution rates depend primarily on the ratio between benefits paid and the total contributory payroll. Consequently, the federal government proposed a shorter transition period and a low contribution rate (2%), which would have subsequently increased.

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1. The transition period is the number of years of contribution that gives entitlement to a full pension. The Interdepartmental Study Committee on the Québec Pension Plan recommended 20 years but the federal government proposed 10 years. The federal proposal was accepted.

Maintaining parity between the two plans was important for the Québec government, which did not want the contributions made by Québec businesses and workers to be considerably higher than those made elsewhere in Canada. The government also wanted Quebeckers working in other provinces during their economically active lives to have equivalent protection and to be able to transfer their benefits from one plan to another. The negotiations that followed led to a compromise between the two proposals so that parity between the two plans would be maintained, particularly with regard to contribution rates, the transition period and benefits.

When the Québec Pension Plan began in 1966, it was expected that partial funding would progressively give way to pay-as-you-go funding. The reserves of both plans were expected to be nil after 40 years, requiring thereafter an increase in contribution rates.

In the beginning, some people may have recommended pay-as-you-go funding because of the high rates of economic and demographic growth. However, these factors (especially the number of retirees, the number of workers, unemployment rates and wages) did not develop so as to favour pay-as-you-go funding, either for the Québec Pension Plan or for the Canada Pension Plan.

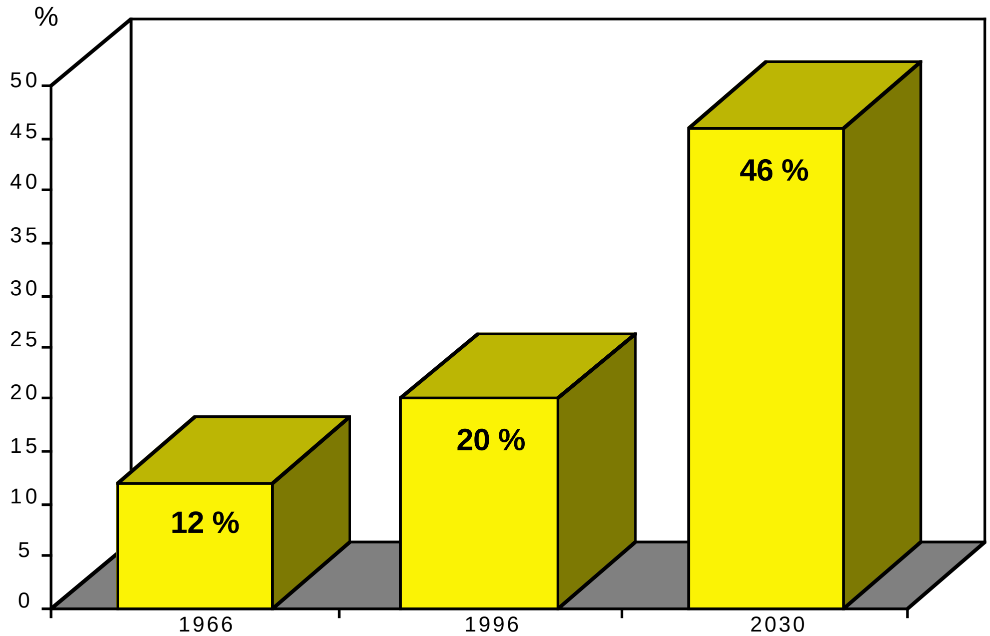
Factors resulting in contribution rate increases for the Québec Pension Plan

Demographic factors

Like most industrialized countries, Québec is faced with an aging population, primarily because of falling birth rates and increasing life expectancy. To understand the impact of these factors on the Québec Pension Plan, we must examine the changes in the ratio of to the population aged 65 or over to the working-age population (ages 20 to 64).

Chart 3

Ratio of the population aged 65 or over to the population aged 20 to 64



When the Québec Pension Plan was created, the number of people in the 65-and-over age group was equal to 12% of the number of people aged 20 to 64. In 1996, the percentage is 20%, and it will reach 46% in 2030. In other words, the ratio of Plan beneficiaries to contributors is increasing. The Québec Pension Plan is not fully funded, that is, it does not now have the sums required to cover the value of its future obligations. In this context, the strong pressure of demographic changes will, in the long term, lead to an increase in the contribution rate.

Economic factors

Economic growth is a crucial factor in the financing and development of the Québec Pension Plan.

In this area, two main elements influence changes in the total contributory payroll: the number of contributors (i.e., the number of jobs) and wage increases.

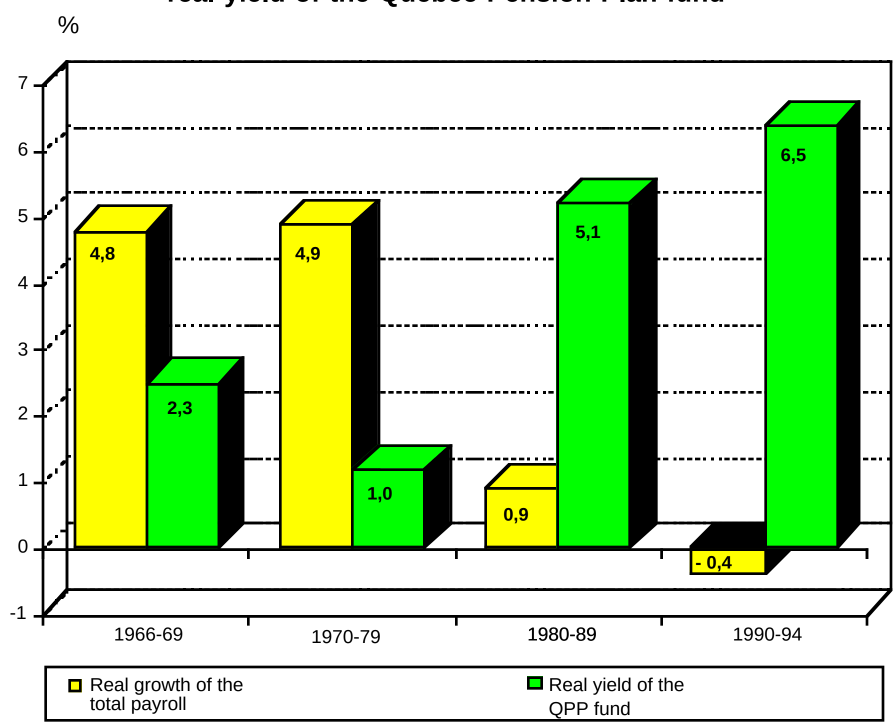
The massive entry of women into the labour force in the 1960s and 70s is mainly responsible for the 3%-a-year increase in the number of contributors during this period. Furthermore, since wages increased more rapidly than inflation, the total payroll grew by 4,8% a year in real terms from 1966 to 1969 and by 4,9% a year from 1970 to 1979, as shown in Chart 4.

However, from 1980 to 1989, the growth of wages compared with inflation as well as the increase in the number of contributors slowed considerably, and the average annual rate of growth for the total payroll was a scant 0,9%.

In the 1990s, the slowdown has continued and the total payroll has been growing at a rate lower than the inflation rate. The Plan's latest actuarial report assumes that increases in the total payroll will return to rates higher than the inflation rate. However, the growth rates observed in the 1970s are unlikely to return. Because of the slowdown, the financing of the Québec Pension Plan is in question and increased funding will be necessary.

Chart 4

Real growth of the total payroll and real yield of the Québec Pension Plan fund



In the Plan's early years, real interest rates were not very high. Therefore, there were few advantages in accumulating a large reserve since the low level of investment income would not have allowed substantial increases in Plan funding.

As Chart 4 shows, the situation has completely changed in the last 15 years. Since the beginning of the 1980s, the real yield of the fund has been very high, fluctuating around 6%. It has become worthwhile to increase the reserve and take advantage of investment income to create an additional source of Plan funding, while reducing our dependence on foreign capital.

Part 1: Shortcomings of the Québec Pension Plan

1• Current Plan financing is unfair to future contributors

From 1966 to 1986, the contribution rate for the Québec Pension Plan was 3,6%. Beginning in 1987, the rate increased by 0,2% a year and reached 5,6% in 1996. The *Act respecting the Québec Pension Plan* does not set a contribution rate for subsequent years.

According to the latest actuarial report[1] of the Québec Pension Plan (as at 31 December 1994), the contribution rate will have to be increased gradually to maintain the Plan in its present form. The rate would have to increase from 5,6% in 1996 to 13,0% in 2023. The schedule of rate increases recommended in the report would make it possible to maintain a reserve equal to about twice the cash outflows of each succeeding year. Maintaining a reserve of that size would avoid sharp rises in the contribution rate in years when economic conditions are unfavourable.

According to the actuarial report, the contribution rate would increase by 0,4% for each of the years from 1997 to 2001 and thereafter by 0,25% annually until 2023. To maintain a reserve equal to twice the Plan's cash outflow, the rate would have to be increased more rapidly than it was from 1986 to 1996.

The conclusions of the latest actuarial report are clear. If nothing is done, future generations will have to pay a contribution rate of 13,0% to receive the same benefits as today's contributors, who pay a rate of 5,6%. This result is unfair to future generations.

A contribution rate of 5,6% is clearly insufficient. In the private sector, to be entitled to benefits similar to those offered by the Québec Pension Plan (retirement pension, disability pension, surviving spouse's pension and death benefit), a contributor and his or her employer would have to pay the equivalent of a contribution rate of 10% during the period in which the contributor is between 18 and 65 years of age.

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1. The main findings of the most recent actuarial report are given in Appendix 2.

Largely because of demographic and economic changes during the last 30 years, the value of the benefits paid out by the Québec Pension Plan is higher than the value of the contributions made by the beneficiaries when they were in the labour force. From 1966 to 1986, the contribution rate was set at a relatively low level (3,6%). The Plan provides that contributory periods begin at age 18 and may continue until age 70. In 1976, a retiree was entitled to a full pension after only 10 years of contribution.

It must be pointed out that many of the current beneficiaries of a retirement pension have known hard times, notably the depression of the 1930s, World War II, difficult working conditions and low wages until the mid-1960s. Although these workers helped to lay the groundwork for economic growth, they did not benefit very much from the positive repercussions of that growth on wages, and they were not able to put aside enough money during their working lives. The majority therefore found themselves in a situation of poverty after retirement. The provisions of the Québec Pension Plan were aimed at improving that situation.

The baby boomers (the generation born between 1945 and 1960) lived through years of strong economic growth and were generally able to put aside more retirement savings. Consequently, it is essential to restore equity between the generations of contributors by increasing the contribution rate more rapidly than projected in the actuarial report as at 31 December 1994, so that the rate can be stabilized and become constant for a very long period.

2• Contributors have less confidence in the future of the Québec Pension Plan

Over the years, a feeling of insecurity has developed about the Québec Pension Plan, which has been fed largely by the spectre that the Plan's reserve will be depleted in a few years.[1] This threat is the most widespread information about the Plan and has led to a decrease in the people's confidence in the capacity of the Québec Pension Plan to meet its future financial obligations.

There are many reasons for the lack of confidence. Some say that unemployment levels and the slow growth of wages make it impossible to bring in enough contributions. Others note that life expectancy is increasing and that makes it difficult to maintain current benefit levels; still others place the Plan in a more general context of demographic and economic pressures that call into question some features of today's public programs.

Surveys of discussion groups on the future of the Québec Pension Plan show that survey respondents are categorically and unanimously in favour of maintaining the Plan. However, they want actions to be taken to ensure adequate funding of benefits.

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1. The *Act respecting the Québec Pension Plan* requires that projections of changes in the reserve be based on the last rate set in the *Act*. In the most recent actuarial report, the use of a constant rate of 5,6% resulted in a projection of reserve depletion in 2006.

3• Low-income workers have no protection

The Québec Pension Plan has a basic exemption equal to 10% of the maximum pensionable earnings, which are 3 500 $ in 1996, and applicable to all contributory earnings. A worker whose earnings are 3 500 $ or less cannot contribute to the Plan and does not accumulate any benefits.

In Québec, in 1994, some 450 000 workers (about 13%) earned less than the basic exemption. The proportion was higher for women (16%) than for men (11%). This is largely due to the fact that women are more likely to have insecure jobs (casual and seasonal work) or part-time jobs. In 1995, 15% of Québec workers held a part-time job. The proportion was 23% for women and 9% for men.

Statistics on part-time work show that many people work only a few hours a week. Also, many work only a few weeks of the year. In fact, only two thirds of all workers are employed for the entire year, and about 14% of workers are employed for less than 20 weeks during the year.

The basic exemption makes less and less sense for today's labour force; it excludes a large number of workers from the Plan, who do not receive any financial protection under the Plan.

4• Discrepancy between contributory earnings and earnings on which benefits are calculated

The basic exemption of 3 500 $ applies to all contributors to the Plan. For example, a worker who earns the maximum pensionable earnings in 1996, that is, 35 400 $, will receive a pension calculated on that maximum but will have contributed only on 31 900 $. A worker who earns 3 600 $ will accrue benefits based on his or her total earnings but will contribute only on 100 $, that is, the portion of earnings that exceeds 3 500 $.

The basic exemption, which was intended to make the contribution rate somewhat progressive, has the effect of reducing the real contribution rate for all categories of contributors (see Table 2).

Table 2

Ratio of contributory earnings to earnings used to calculate pensions and real contribution rate of the Québec Pension Plan in 1996

Earnings on which benefits are calculated $	Contributory earnings $	Proportion of earnings on which contributions are made %	Real contribution rate of the QPP %
5 000	1 500	30	1,7
10 000	6 500	65	3,6
20 000	16 500	83	4,6
30 000	26 500	88	4,9
35 400	31 900	90	5,0

Therefore, although the official contribution rate for the Québec Pension Plan is 5,6% in 1996, no contributor actually pays that rate. Because of the basic exemption, the real contribution rate varies according to income. For example, it is 3,6% for a worker who earns 10 000 $ and 5,0% for a worker who earns 35 400 $.

Maintaining the basic exemption in its current form creates problems. In an insurance plan like the Québec Pension Plan, there should be a correspondence between the contributory earnings and the earnings on which benefits are calculated, at least for middle- and high-income workers.

Part 2: A public retirement savings plan based on fairness, solidarity and responsibility

During the 1960s, the Québec government guaranteed replacement income to Quebeckers in the event of retirement, disability or the death of a spouse:

> The major transformation of society in recent decades, the upheaval and disappearance of traditional bonds, in large part due to the industrial revolution, seem to have made it necessary for individuals to confront alone the threat of poverty. Whether it results from aging, disability or death, poverty usually means that citizens and their families do not have a regular and sufficient income. This is certainly true for those who depend solely on their employment earnings.
>
> They are the ones who are most in need of assistance. It is therefore essential that this assistance be established with their full participation. And this goal can only be attained by setting up a program which, as much as possible, restores to some extent the means of subsistence that have been lost.[1]

By making the participation of each Québec worker the cornerstone of its public retirement plan, the Québec government confirmed the importance of basing the financial security of seniors on a plan whose accepted principles are solidarity and responsibility.

Principles

Far from calling into question the principles on which it has been based for over 30 years, the Québec government is reconfirming them and making them the basis of the following proposals. They are aimed at renewing an important element of the social alliance: the Québec Pension Plan. These proposals for reforming the Québec Pension Plan are based on fairness between the generations and the two principles of solidarity and responsibility.

Fairness between the generations

A public retirement savings plan is financed by the contributions of employers and workers. Its financing rests on the assumption that each generation of workers pays

1. Jean Lesage, Québec Legislative Assembly, *Débats de l'assemblée législative*, fourth session, 27th legislature, 1 June 1965, vol. 2, no. 64, p. 3012. (Translated from the French.)

the pensions and benefits of the beneficiaries who have left the labour force. This is what is called pay-as-you-go financing. In a stable demographic situation, the future of such a plan is guaranteed since there are always contributors to ensure its funding. However, because of the major demographic changes which have taken place in Québec, as elsewhere in the world, financing of the Plan has to be reviewed. The faster increase in the proportion of retired persons to contributors will increase the cost of the Plan and create an additional burden on future generations of workers.

The government has the responsibility of establishing greater fairness between the generations in the financing of the Québec Pension Plan. If nothing is done, the present contribution rate of 5,6% will have to eventually reach 13%. This is unfair because future generations will pay much higher contribution rates than current generations. In this sense, fairness means raising the contribution rate as soon as possible to a level which can be maintained over a very long period.

Solidarity

The ability to put money aside depends on a person’s income, and this fact must be taken into consideration. Thus, for various reasons (repeated periods of unemployment, insecure jobs, part-time, seasonal or underpaid work, extended periods in which a person is outside the labour force, sickness, physical or mental disability, etc.), some people will not work sufficiently during their working lives to accumulate the kind of savings needed to ensure adequate protection for retirement. Society must ensure some minimum assistance to such retirees, through the Québec Pension Plan and through assistance measures. The role of government is therefore to guarantee basic protection through a public retirement savings plan: the Québec Pension Plan. However, we must also ensure that social solidarity does not take the place of individual responsibility.

This solidarity also requires that we not penalize current retirees, whose generation paid the contribution rate set by law and met the obligations that it was asked to meet at the time. As discussed previously, demographic and economic changes over the past 30 years are largely responsible for the present underfunding of the Plan. Though the current situation demands immediate action, asking for an additional financial contribution from today’s generation of retirees would show a lack of solidarity.

A shared responsibility

Income security after retirement must rest on shared responsibility. Therefore, all workers have the responsibility of saving for retirement, and employers also have this social responsibility with respect to their employees.

The government must also set up mechanisms, systems or a legislative framework to support workers in their responsibility to save through supplemental pension plans and registered retirement savings plans (RRSPs).

The ultimate objective of such an approach is to ensure an income level that maintains to some extent the previous level of employment income so as to avoid an unacceptably sharp drop in the standard of living at retirement.

Objectives

Through its proposal for reforming the Québec Pension Plan, the Québec government is pursuing the following objectives:

- To ensure fairness between the generations of contributors by quickly attaining a higher contribution rate that can remain constant for a very long period.
- Guaranteeing that over the same period, receiving a retirement pension will be an absolute certainty for today’s seniors and future generations.

Part 3: Options to guarantee the future of the Québec Pension Plan

The options presented in the following pages are aimed at ensuring fairness between the generations of contributors and guaranteeing the payment of Québec Pension Plan benefits. Various means can be considered to meet these objectives: a large increase in contribution rates, broadening the contributory base, setting an appropriate level for the reserve and restructuring benefits.

The best way to restore fairness between the generations of contributors is to rapidly increase the contribution rate to a level that can be kept constant over a long period. A large increase in the contribution rate makes it possible to quickly accumulate a reserve which, by generating investment income, will make it possible to more quickly attain a constant contribution rate. Moreover, it is a good idea to maintain in the long term a level of reserve which takes into account demographic change in order to ensure a stable contribution rate. It is important to quickly raise the rate to restore fairness between the generations of contributors, and this must be done while the baby boomers are still in the work force.

Within the framework of the five-year review of the Canada Pension Plan, the federal government and the provincial governments concerned published, in February 1996, a discussion paper on the reforms which must be carried out in order to make the Canada Pension Plan sustainable. The paper proposes rapidly moving to a steady-state contribution rate,[1] that is, a contribution rate which can be maintained constant.

1• A large increase in the contribution rate

The federal government and the provincial governments concerned describe two schedules to be followed to reach a steady-state contribution rate. If there is no decrease in benefits, the rate will reach 12,2% in 2003 according to a shorter schedule, and 12,6% in 2007 according to a longer schedule.

Table 3 shows the schedules for increasing the contribution rate that are presented in the discussion paper on the future of the Canada Pension Plan.

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[1]. Term used in the discussion paper on the future of the Canada Pension Plan. In such a plan, the reserve reaches a level equal to six times the plan's cash outflow.

Table 3
Schedules for quickly increasing the contribution rate proposed for the Canada Pension Plan
(as percentages)

	Schedules proposed in the federal-provincial discussion paper			
	Shorter schedule		Longer schedule	
Year	Contribution rate	Annual increase	Contribution rate	Annual increase
1996	5,6	0,2	5,6	0,2
1997	6,0	0,4	6,0	0,4
1998	6,6	0,6	6,4	0,4
1999	7,4	0,8	6,8	0,4
2000	8,4	1,0	7,4	0,6
2001	9,6	1,2	8,0	0,6
2002	10,9[1]	1,3	8,6	0,6
2003	12,2[2]	1,3	9,4	0,8
2004	12,2	-	10,2	0,8
2005	12,2	-	11,1[1]	0,9
2006	12,2	-	12,0	0,9
2007	12,2	-	12,6[2]	0,6

1. In the federal-provincial document, the rates reach ceilings of 10,9% and 11,1% respectively because they are based on the assumption that benefits will be reduced by 10% in the long term.
2. If there is no decrease in benefits, the rate will increase to this level. We have assumed that the annual increase of the rates will be equivalent to that which is applied for the last year.

If these schedules were applied to the Québec Pension Plan, the contribution rate would reach a ceiling of 11,8% in 2003 according to the shorter schedule and 12,2% in 2007 according to the longer schedule.[1] It should be noted that the rate of 11,8% is based on the annual increases indicated in the table. However, the increase in 2003 would be only 0,9% rather than 1,3%. The longer schedule produces a similar effect — the annual increase in 2007 would be only 0,2% and the rate would reach 12,2%.

The shorter schedule gives workers and employers little time to adapt to such considerable increases in payroll taxes. In the short term, the increase in the contribution rate for the Québec Pension Plan would reduce personal income and overall spending in the economy. The impact on the economy would be minimized if the contribution rate is increased gradually, that is, over a certain period.

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1. The objective of these scenarios is to maintain a reserve equal to six times the Québec Pension Plan's cash outflow.

Moreover, the longer schedule proposed for the Canada Pension Plan is relatively long given the urgency of ensuring intergenerational equity. However, various means are available to reduce the contribution rate and reach the objective faster: broadening the contributory base, setting an appropriate level for the reserve and restructuring benefits.

2• Broadening the contributory base

It is possible to reduce the contribution rate further by broadening the base of earnings on which contributions are paid. Various measures can be considered to reach this goal. Three options are presented in this section: freezing the basic exemption, freezing it and reducing it proportionally and requiring beneficiaries who work to contribute to the Plan.

1. Freezing the basic exemption

Québec Pension Plan contributors have a basic exemption from contributing on the first 3 500 $ of earnings. It would be possible to freeze the basic exemption and maintain it at its present level. The Canadian government and the provincial governments concerned also suggest this measure in the discussion paper on the future of the Canada Pension Plan.

By freezing the basic exemption, a greater number of workers with low incomes could be covered under the Québec Pension Plan: they would make contributions and could obtain benefits under the Plan.

2. Freezing and proportionally reducing the basic exemption

Some groups, like the Canadian Institute of Actuaries[1] have in the past suggested abolishing the basic exemption in order to help finance the Plan. Rather than abolishing it completely, a proportional reduction could be considered in addition to freezing its amount.

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1. Canadian Institute of Actuaries, *Report of the Task Force on the Future of the Canada/Québec Pension Plans,* May 1996, p. 17.

A worker who earns the maximum pensionable earnings in 1996, that is 35 400 $, will receive a pension calculated on that amount, although he or she will have only paid contributions on 31 900 $. A way to correct this would be to proportionally reduce the basic exemption, a measure that would make it possible to gradually decrease the exemption of workers whose earnings are over 3 500 $, so that the exemption is nil for those whose incomes equal the maximum pensionable earnings (35 400 $ in 1996). The exemption levels would remain constant in the years thereafter.

Table 4

Exemptions
(in 1996 dollars)

Annual earnings $	Exemption $	Earnings on which contributions are made $	Proportion of earnings on which contributions are paid %
3 500	3 500	0	0
5 000	3 335	1 665	33
10 000	2 787	7 213	72
20 000	1 690	18 310	92
30 000	592	29 408	98
35 400	0	35 400	100

A proportional reduction of the basic exemption has the advantage of tying the rate of contribution to a contributor’s ability to pay: as earnings increase, the base on which contributions are made broadens.

It would be possible to apply the proportional reduction as of 1997. However, to reduce the financial strain, it would perhaps be wise to apply it later, at least after the contribution rate has reached its steady-state level.

3. Requiring beneficiaries who receive a retirement pension and who work to contribute to the Plan

Persons who apply for an early retirement pension under the Québec Pension Plan (between 60 and 65 years of age) must have stopped working in order to qualify. Some of these beneficiaries return to work after they have started receiving their pensions, but before they turn 65. These persons are exempted from contributing to the Québec Pension Plan, as are their employers.

As for beneficiaries aged 65 or over, it is not necessary for them to have stopped working in order to receive a pension. If they continue working after age 65, they receive both a pension and employment earnings.

It would be possible to require pension beneficiaries who work to contribute to the Plan the same way as other workers do. If these beneficiaries are not receiving the maximum pension, their pension could be increased on the basis of these additional contributions.

3• Setting an appropriate level for the reserve

The schedules for increasing the contribution rate proposed in the federal-provincial discussion paper will result in a steady-state contribution rate, that is, a stable rate until 2100. To reach this objective, the reserve must increase rapidly to a level equal to about six times the Plan's annual cash outflow and remain at that level.

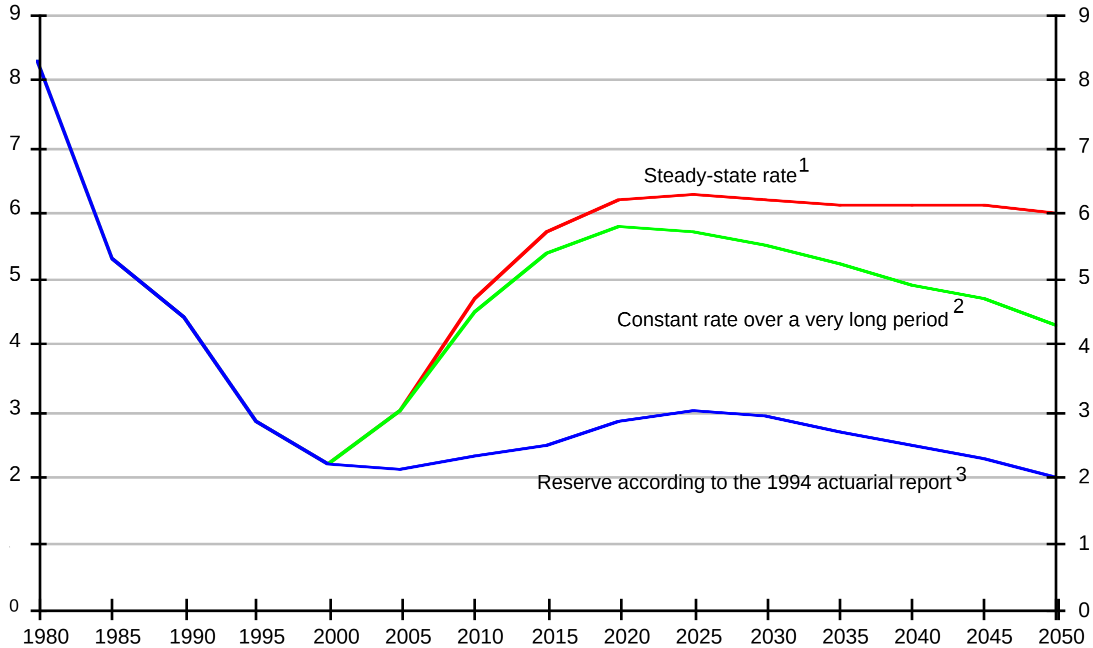
It appears necessary to build up a large reserve in the short term to meet the Plan's financial obligations, which are high because of baby boomers' impending retirement.

We must, however, question the need to maintain the level of the reserve that high afterwards because this would require an excessive effort by future generations of workers. If the objective was to obtain a reserve level equal to four times the cash outflow in 2050, it would be possible to reduce the constant contribution rate by 0,3% and maintain it for a very long period.

Regardless of whether or not the extended long-term objective is to obtain a reserve level equal to four times the cash outflow, the schedule for the rate increases must remain the same. Chart 5 illustrates the changes in the reserve according to various schedules for raising the contribution rate.

Chart 5

Changes in the ratio of the reserve at the end of one year to the cash outflow of the following year, according to various reserve levels



1. To obtain this reserve, the rate must increase for 11 years, from 5,6% in 1996 to 12,2% in 2007.
2. To obtain this reserve, the rate must increase for 10 years, from 5,6% in 1996 to 11,9% in 2006.
3. According to the actuarial report, the rate increases from 5,6% in 1996 to 13% in 2023.

4. Restructuring benefits

The Québec Pension Plan offers basic protection for retirement and in case of disability or death.

The Canadian government and the provincial governments concerned are considering, within the framework of the discussions on the future of the Canada Pension Plan, several options which reduce benefits in the long term by about 10%. Table 5 shows the effects of these reductions in benefits if they were applied to the Québec Pension Plan.

Table 5

Effects of the reduction in benefits[1]
proposed for the Canada Pension Plan
if applied to the Québec Pension Plan

	Savings in 2030 Effect on the QPP	
Measures proposed for the CPP	Reduction in benefits	Reduction in the pay-as-you-go rate[2]
	%	%
Retirement benefits		
• Reducing the income replacement rate from 25% to 22,5%	9,2	1,31
• Increasing the normal retirement age (from 65 to 67)	6,3	1,01
• Partially indexing benefits (CPI - 1 %)	10,7	1,53
• Reducing the number of drop-out years (from 15% to 10%)	2,3	0,32
Disability benefits		
• Tighter administration	-	-
• Reducing the disability pension by 25% of workers' compensation	-	-
• Stricter eligibility requirements for disability pensions (4 of the last 6 years)	0,8	0,12
• Converting the disability pension at age 65 to an actuarially adjusted retirement pension	2,1	0,29
• Less generous retirement pension for disability pension beneficiaries who reach age 65	0,6	0,07
Survivors' benefits		
• New rules for combining retirement/surviving spouse's pensions and disability/surviving spouse's pensions	0,1	-
• Eliminating the death benefit	1,6	0,23

1. The rates cannot simply be added together because certain measures can have an effect on other measures.
2. The pay-as-you-go rate equals the ratio of the cash outflow to the total contributory payroll. It would be 14,3% according to the actuarial report as at 31 December 1994.

The Québec government is open to a certain restructuring of benefits in order to make the Plan fairer and to decrease costs in the long term. However, certain options proposed by the federal government cannot be applied in Québec because they would call into question the foundations of the Plan. In particular, the Québec government intends to maintain the four main features of the Plan, that is:

- an income replacement rate of 25%;
- retirement at age 65;
- indexation of benefits;
- maintaining the exclusion of years when earnings are low or nil.

Retirement benefits

Employment income replacement rate

One of the options which is brought up in the discussion paper on the future of the Canada Pension Plan is a decrease in the employment income replacement rate from 25% to 22,5% for the retirement pension. The justification for the reduction would be increased life expectancy. Its effect would be to decrease Québec Pension Plan benefits by 9,2% in the long term.

However, since the Québec Pension Plan is a basic plan, any decrease in the employment income replacement rate risks impoverishing future retirees who do not contribute to a private plan.

Since a large number of retirees cannot count on private retirement savings instruments and must rely on the Guaranteed Income Supplement, a decrease in the income replacement rate under the Québec Pension Plan could, in their case, mean an even greater dependence on assistance measures.

Furthermore, in the case of most members of supplemental pension plans, private pensions are integrated with the pension paid by the Québec Pension Plan, which guarantees an employment income replacement rate of 70% at retirement (25% from the Québec Pension Plan, 45% from a supplemental plan). A decrease in the income replacement rate could lead to higher costs for supplemental plans.

Retirement age

Another option considered in the discussion paper on the future of the Canada Pension Plan is increasing the age at which a person is entitled to a full pension from 65 to 67. This would mean that the age for early retirement would increase from 60 to 62. No specific formula is provided in the paper, but mention is made that such a measure could be applied progressively and be fully in effect by 2011.

Increasing life expectancy generates extra costs for public retirement savings plans and could justify raising the retirement age. This trend has been observed in other countries. However, increasing the retirement age will not favour job creation and the present unemployment situation makes it difficult to consider such an option.

Indexing benefits

Indexing benefits according to the Consumer Price Index minus 1% is another option presented in the discussion paper on the future of the Canada Pension Plan. This measure would most affect the benefits under the Québec Pension Plan, that is, a reduction of close to 11%. However, it would also have major consequences for retirees who have low incomes because their pensions would not keep up with inflation. It would also penalize women because they live longer than men.

Excluding years of low income

When calculating a pension, the Plan provides that the years in which earnings were low or nil are excluded, up to a maximum of 15% of the contributory period.[1] This increases the average earnings and increases the pension amount. One of the options put forward in the discussion paper on the future of the Canada Pension Plan is to reduce the number of years excluded from 15% to 10%.

This measure could establish greater fairness between beneficiaries but would penalize to a greater extent contributors whose careers were interrupted for long periods because of studies or unemployment. It would be advantageous to those who

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[1]. Number of years in which a person could have contributed to the Québec Pension Plan since 1 January 1966 or the person’s 18th birthday.

contributed longer. However, it would not be advantageous to women, whose periods of absence from the labour force are longer, even if the Québec Pension Plan already provides for excluding the years a person is away from the labour force to care for a young child.

Disability benefits

Tighter administration of disability benefits

In recent years, the Canada Pension Plan's costs related to disability benefits have increased considerably. Tighter administration measures have been introduced to stop this uncontrolled increase in costs. The Canadian government and the provincial governments concerned propose in the discussion paper on the future of the Canada Pension Plan that these measures continue and, if necessary, that legislative amendments be made to tighten the rules concerning eligibility for disability pensions.

This measure is not being considered for the Québec Pension Plan. Thanks to an administration that is both strict and fair, the Plan has not experienced an increase in the costs related to disability.

Reducing the disability pension by 25% of workers' compensation

In some provinces, disabled persons can receive both a pension under the Canada Pension Plan and benefits under the provincial workers' compensation plan. To reduce the overlap and the costs to the Canada Pension Plan, it has been proposed that the pension paid by the Canada Pension Plan be reduced by 25% of the indemnity paid to a worker who has suffered a work-related accident.

This measure would not apply in Québec, which has completely harmonized disability benefits under the Québec Pension Plan and the income replacement indemnity paid by the Commission de la santé et de la sécurité du travail (CSST).

Eligibility requirements for disability pensions

An applicant can be entitled to a disability pension if he or she contributed to the Canada Pension Plan for five of the last ten years or two of the last three years preceding the onset of disability. The Canadian government and the governments of the other provinces suggest introducing more restrictive measures concerning entitlement to a disability pension. It is proposed that future applicants will have to have contributed to the Plan for four of the last six years preceding disability.

Since July 1993, new provisions have been in effect governing entitlement to a disability pension in Québec. The *Act respecting the Québec Pension Plan* was amended to attain two specific goals:

- to ensure that young workers and those who left the labour force for a relatively long period but who have returned for two years (if they contributed for two of the last three years) have easier access to a disability pension;
- to give entitlement to a disability pension to persons having chronic diseases which worsen over time (if they contributed for half the contributory period).

Instead of relaxing its eligibility requirements, the Canada Pension Plan is considering limiting access to a disability pension to those who were working at the time they became disabled or a short time before their disability and who had been working for a considerable time, that is, four of the last six years. This direction is the opposite of that taken by Québec recently.

Conversion of the disability pension at age 65 to an actuarially adjusted retirement pension

Currently, the disability pension of a disabled beneficiary ends at 65 years of age and is converted to a retirement pension that is not subject to an actuarial adjustment, as if the beneficiary had continued to work between the time he or she became disabled and age 65.

The discussion paper on the future of the Canada Pension Plan suggests that the disability benefit be converted at 65 years of age to an actuarially reduced retirement pension. The actuarial reduction would depend on the number of months during which the beneficiary received a disability pension between 60 and 65 years of age.

Thus, upon retirement, beneficiaries of a disability pension would be treated in the same way as a worker who chose early retirement.

Recalculating the retirement pension of a disability pension beneficiary who has reached 65 years of age

Under the current provisions, the retirement pension of a disability pension beneficiary who has reached 65 years of age is calculated on the basis of the person’s earnings indexed over the period of disability according to increases in the average wage. Since wages grow faster than inflation, the person receives a retirement pension higher than he or she would have received if his or her earnings had been indexed according to the Consumer Price Index.

In future, the retirement pension of a disabled beneficiary could be calculated on the basis of the person’s earnings at the time the person became disabled and indexed according to the Consumer Price Index during the person’s disability. This measure would be fairer to other contributors but would penalize to a greater extent those workers who become disabled early in their careers.

Benefits paid following death

The Canadian government and the provincial governments concerned have announced in the discussion paper on the future of the Canada Pension Plan that they may, over the next two years, review the surviving spouse’s pension. The Québec government feels that this is not the time to reassess this pension.

New rules for combining surviving spouse’s pensions with retirement pensions or disability pensions

The federal government has proposed new rules with respect to combined pensions. The goal is to set a benefit ceiling for persons who receive both a surviving spouse’s pension and a disability pension. At present, when a person is entitled to these two pensions, the rules provide that such a person receives a flat benefit equal to the higher of the two pensions and a variable portion whose maximum amount is equal to the maximum retirement pension. It is suggested that the ceiling to be applied should be the maximum disability pension.

This proposal would reduce the maximum combined pension from 1 127 $ to 871 $ a month. Very few Québec Pension Plan beneficiaries receive a combined disability/surviving spouse's pension.

Beneficiaries can also receive a retirement pension and a surviving spouse's pension at the same time. In this case, the federal-provincial discussion paper suggests that the formula for combining them allow for partial payment only of the aggregate benefits and that the benefits paid be proportional to earnings.

The Québec Pension Plan's rules for combining these pensions already provide for a partial payment of the aggregate benefits that is proportional to earnings. Therefore, this proposal for a change in the way retirement pensions and surviving spouse's pensions are combined would not affect the Québec Pension Plan.

Eliminating the death benefit

One of the measures suggested to slow the increase in the costs of the Canada Pension Plan is abolishing the death benefit. It is a lump-sum benefit which can reach 3 540 $ in 1996. When the benefit is paid, priority is given to the person who paid the funeral expenses.

5• Effects on the contribution rate

Table 6 shows the effects of the various measures on the contribution rate of the Québec Pension Plan over the long term.

Table 6

Effects of the measures on the contribution rate

Contribution rate according to the 1994 actuarial report	13,0 %

	Long-term effect on the contribution rate	
Proposed measures	Shorter schedule	Longer schedule
1. Large increase in the contributory rate	- 1,2 %	- 0,8 %
2. Broadening the contributory base		
- Freezing the basic exemption	- 1,1 %	- 1,3 %
- Proportional reduction of the basic exemption and freezing it		
• as of 1997	- 0,7 %	- 0,7 %
• as of 2006	- 0,4 %	- 0,4 %
- Requiring retirement pension beneficiaries who work to make contributions	--*	--*
3. Setting an appropriate reserve level (lower than that proposed for the Canada Pension Plan)	- 0,3 %	- 0,3 %
4. Restructuring benefits		
- by 1 %	- 0,1 %	- 0,1 %
- by 3 %	- 0,3 %	- 0,3 %
- by 5 %	- 0,5 %	- 0,5 %

* This measure would nonetheless have the effect of increasing contributions paid to the Québec Pension Plan by almost 20 million $ if applied in 1997.

For example, we could obtain a constant rate of 10,7% by increasing the contribution rate according to the shorter schedule (-1,2%) and by freezing the basic exemption (-1,1%).

We could obtain a constant rate of 10,2% by increasing the contribution rate according to the longer schedule (-0,8%), by freezing the basic exemption as of 1997 (-1,3%) and by proportionally decreasing it as of 2006 (-0,4%) and by aiming for a reserve fund smaller than the one proposed for the Canada Pension Plan, but which nonetheless could allow us to maintain a constant contribution rate for a very long period (-0,3%).

Any reduction in benefits also makes it possible to reduce the contribution rate. If benefits were reduced by 3%, the contribution rate could decrease by an additional 0,3%.

Effects on the economy and public finances

In the short term, a large increase in the contribution rate of the Québec Pension Plan would reduce personal income and overall spending in the economy. The impact on the economy would be minimal if the increase in the contribution rate is gradual, that is, spread over a certain period of time.

If the contribution rate of the Canada Pension Plan is increased in a manner similar to that of the Québec Pension Plan’s rate, the competitiveness of Québec businesses will not be affected vis-à-vis their competitors in the rest of Canada.

In the longer term, the decision to improve the Plan’s funding could have a positive effect on the economy through an increase in national savings, a growth in investment, an increase in capital stock and a reduction of foreign debt.

Finally, the longer we wait to increase contributions, the greater the effort that will be required of future generations of workers and their employers. However, the sooner we increase contributions, the greater will be the group effort made by the generations who are now in the last years of their working lives.

SUMMARY

Part 1• Shortcomings of the Québec Pension Plan

Four main shortcomings are singled out:

- Current Plan financing is not adapted to the present demographic and economic situation and is therefore unfair to future generations of contributors. The value of benefits paid to baby boomers and their predecessors will be greater than their contributions. According to the latest actuarial report (as at 31 December 1994), the current contribution rate of 5,6% will reach 13,0% in 2023.
- Because the Plan is underfunded, people's confidence in the capacity of the Plan to meet its future obligations is decreasing.
- Low-income workers have no protection: those who earn less than 3 500 $ annually do not contribute to the Plan and do not accumulate any benefits.
- There is a discrepancy between contributory earnings and the earnings on which benefits are calculated.

Part 2• A public retirement savings plan based on fairness, solidarity and responsibility

Accepted principles

The proposal for reforming the Québec Pension Plan is based on three fundamental principles:

- In the near future, each generation of Quebeckers must pay the same contribution rate so as to avoid making future generations pay contribution rates that are too high.
- The solidarity which unites workers guarantees each and every person basic financial assistance at retirement, regardless of his or her situation.
- In Québec, retirement income security is a responsibility that is shared between workers, employers and government.

Objectives

- To ensure fairness between the generations of contributors by quickly attaining a higher contribution rate that will remain constant for a very long period.

- Guaranteeing that over the same period, today's seniors and future generations will be certain to obtain a retirement pension.

Part 3• Options to guarantee the future of the Québec Pension Plan

- To establish greater fairness between the different generations of contributors, two schedules for increasing the contribution rate for the Canada Pension Plan are proposed by the federal government and the provincial governments concerned: a shorter schedule and a longer schedule.
- A large increase in the contribution rate would encourage the accumulation of a large reserve and make it possible to reach a constant contribution rate for all generations of contributors.
- It would also be possible to broaden the contributory base by freezing the amount of the basic exemption as of 1997 and, as of the same year or as of 2006, proportionally reducing it by an amount which varies on the basis of earnings. The basic exemption would decrease gradually to zero in cases where earnings equal the maximum pensionable earnings. Requiring beneficiaries who receive retirement pensions and who work to contribute to the Plan will also be considered.
- A large reserve fund must be accumulated quickly in order to meet the Plan's financial obligations, which are high because of baby boomers' impending retirement.
- The Québec government intends to maintain the four main features of the Québec Pension Plan, that is:
    - an income replacement rate of 25 %;
    - a normal retirement age of 65;
    - indexation of retirement pensions;
    - exclusion of 15% of the years in the contributory period when earnings are low or nil.
- Restructuring benefits would result in a reduction in the contribution rate.

Chapter 3

The Seniors Benefit

An assistance program open to strong criticism

Federal assistance measures

Some 40% of Québec workers have no private pension plan (supplemental pension plan or RRSP). When they retire, their only sources of income will be the Québec Pension Plan and the assistance programs of the federal government. It is therefore essential that they understand the role of these programs in the retirement income security system, the changes that the federal government plans to make to these programs, the effects that these changes will have on the income of retirees, and the consequences for Québec. This chapter takes a closer look at these measures.

1• The Old Age Security pension: a determining factor in the planning of the Québec Pension Plan

The Old Age Security pension has played and still plays a key role in the establishment of the level of the retirement pension paid under the Québec Pension Plan and the Canada Pension Plan.

In 1963, the report by the Interdepartmental Study Committee on the Québec Pension Plan stated that the retirement income from a public plan should include two components: a basic benefit and an income-related pension. Since the Old Age Security pension constituted the basic benefit, the income-related pension (paid by the Québec Pension Plan) was set at 25% of average pensionable earnings. The combination of the Old Age Security pension and Québec Pension Plan retirement benefits provided an income replacement rate ranging from 70% for a low-income worker to 40% for a worker whose earnings were equal to the maximum pensionable earnings. The role of private retirement plans was to supplement public plans for middle-income and high-income workers.

However, in order for this policy to be consistent over the long term, the two components in question (the Old Age Security pension and the Québec Pension Plan) had to develop along similar lines. That is why, in 1963, the Québec government requested that it be given responsibility for the Old Age Security pension:

> To help resolve the difficulty, Québec proposes that the federal government give it full responsibility for administering old age security for which its citizens aged 70 and over are eligible, provided, of course, that it is given at the same time the sources of financing already provided for with regard to this social security measure, or equivalent fiscal units. This formula would also allow Québec to standardize its social security program for the elderly and to better harmonize the program's components.[1]

At that time, the Old Age Security pension program was financed from a separate fund, the Old Age Security Fund, and this assistance measure was to be universal.

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[1]. Statement by Prime Minister Jean Lesage at the opening session of the federal-provincial conference on 25 November 1963, p. 50. (Translated from the French.)

2• Universality of the Old Age Security pension ends

With the introduction of the Guaranteed Income Supplement in 1967, which was intended to be a transitional program, and the abolition of the Old Age Security Fund in 1975, the federal government clearly adopted an assistance-based approach. And yet, until the end of the 1980s, the Old Age Security pension remained a universal program, where benefits are paid without taking income into account. From a basic benefit originally financed from an independent fund and available to everyone aged 65 or over, the federal government assistance program has become a measure financed through income taxes.

The crisis in government finances led to a reconsideration of all programs financed through income taxes. The Old Age Security pension did not escape this review, especially since it was a universal measure.

Accordingly, in 1989, the federal government introduced a measure to recover some or all of the Old Age Security benefits paid to certain taxpayers, putting an end to the universality of this program. Since that time, benefits have been recovered through the income tax system. Repayment is 15 cents for each dollar of individual income over a certain threshold (50 000 $ in 1989, 53 215 $ in 1995). Benefits are fully recovered at an income of over 84 000 $.

Currently, this measure has a limited impact and affects high-income individuals: in 1993, 2,5% of persons aged 65 or over in Québec were affected by this measure, and only 1,1% had to repay their entire Old Age Security pension. However, since the recovery threshold is partially indexed (the Consumer Price Index increase less 3%), that 2,5% proportion should reach 25% by 2015 and 53% by 2035. By that time, even middle-income seniors would have to repay all or some of their Old Age Security benefits.

The Seniors Benefit which will be implemented by the federal government in 2001 will have a far greater impact than the recovery measure currently applied to the Old Age Security pension, even though everyone aged 60 or over on 31 December 1995 will be guaranteed no less than the current Old Age Security pension program provides. Cost savings to the federal government will be 200 million $ in 2001, 2,1 billion $ in 2011, and 8,2 billion $ in 2030, or 10,7% of current program costs.

3• Seniors' financial independence will depend on the federal government's financial position

For workers who have had annual employment earnings of 25 000 $ throughout their working lives, the amount of the Seniors Benefit will be higher than the pension paid by the Québec Pension Plan.

The following table shows the relative importance of the Québec Pension Plan retirement pension and the Seniors Benefit in the total income of elderly people. For low-income workers (15 000 $), the Seniors Benefit is equal to 9 545 $, which represents more than 70% of their total retirement income (13 295 $). In the case of middle-income workers (25 000 $), the Seniors Benefit is 8 295 $, which is nearly 60% of their total retirement income (14 545 $).

Table 7

Income replacement rate according to employment earnings

Employ-ment earnings ($)	Benefits ($)			Replacement rate (%)		
	Québec Pension Plan	Seniors Benefit	Total income	Québec Pension Plan	Seniors Benefit	Total
15 000 $	3 750 $	9 545 $	13 295 $	25%	64%	89%
25 000 $	6 250 $	8 295 $	14 545 $	25%	33%	58%

Since a sizable proportion of retirement income is provided by the Seniors Benefit, which is financed directly by income taxes, the financial independence of retirees is largely dependent on the federal government's financial position and fiscal priorities.

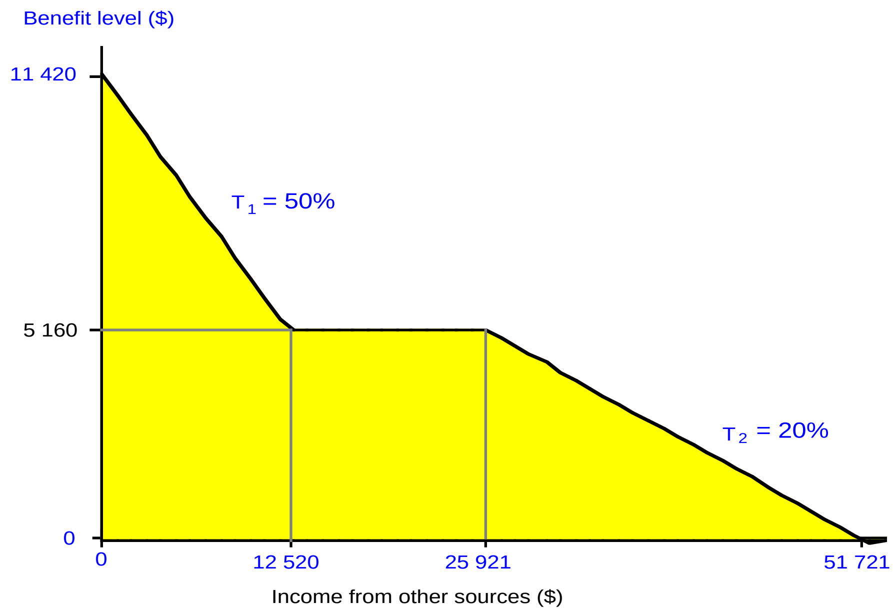
In this context, the Québec Pension Plan is of paramount importance since the retirement pension replaces up to 25% of pensionable earnings from former employment. Given the uncertain future of assistance measures, it is all the more important to maintain the protection that the Québec Pension Plan provides Quebeckers at retirement.

4• The Seniors Benefit: a system that penalizes people who plan for retirement

In any assistance program, the amount of assistance declines as income levels rise. As a result, the incentive to save tends to decrease. With the implementation of the Seniors Benefit, the more a person saves for retirement, the less financial assistance that individual will receive. Chart 6 shows how the Seniors Benefit will apply to single seniors in 2001.

Chart 6

Level of the Seniors Benefit for single seniors, according to income



For single seniors with no other income, the Seniors Benefit is 11 420 $. That amount is reduced by 50 cents for every dollar of income from other sources (Québec Pension Plan benefits, private pension plans, interest, etc.), so that a person with other income totalling 12 520 $ receives only 5 160 $ under the Seniors Benefit program. The Benefit remains at that level until income from other sources rises to 25 921 $. Then it declines by 20 cents for every additional dollar of income until it vanishes when income from other sources reaches 51 721 $.

The same principle applies to couples. For couples with both spouses aged 65 or over, the Seniors Benefit is 18 440 $ if they have no other income. It is reduced by 50 cents for every dollar of combined income, so that at an income level of 16 240 $, the Seniors Benefit amounts to only 10 320 $. Above a threshold of 25 921 $ of income from other sources, the Benefit falls by 20 cents for every additional dollar of income until it disappears completely when the couple's combined income reaches 77 521 $.

Such a system is a disincentive to saving towards retirement, since the more savings a person has, the lower the Seniors Benefit will be.

Furthermore, since the Seniors Benefit will be based on family income, it will have a major negative effect on a sizable proportion of the female population. Québec has chosen to adopt measures aimed at ensuring the financial independence of women (the establishment of the family patrimony and the sharing of retirement pensions under the Québec Pension Plan). This federal measure reflects the opposite approach: by linking government assistance to family income, it takes away much of the financial independence of the spouse with the lower income or no income and perpetuates beyond the age of 65 that spouse's dependency on the spouse who is better off.

This assistance-based approach discourages workers and employers from providing financially for retirement since taxpayers are the ones who will have to finance the Seniors Benefit. In addition, such a system is a disincentive to personal saving and to assuming responsibility for preparing for one's retirement.

5• The Seniors Benefit: a program which raises questions

As stated above, the financial independence of the elderly will depend on the federal government’s financial position and fiscal priorities.

By increasing their dependence on assistance programs, is the Seniors Benefit not threatening the financial security of retired people? What role should it play in our retirement income security system? Would it not be preferable, in order to reassure current and future retirees, to focus on social insurance retirement plans rather than on assistance programs such as the Seniors Benefit proposed by the federal government?

SUMMARY

- The Old Age Security pension has played and still plays an important role in the establishment of the level of retirement benefits provided by the Québec Pension Plan. When the Plan began in 1966, Québec Pension Plan retirement benefits added to the Old Age Security pension provided an income replacement rate varying between 70% in the case of low-income workers to 40% for workers earning the maximum pensionable earnings.

- In 1989, the Old Age Security pension ceased to be a universal benefit. The federal government introduced recovery measures obliging seniors to repay some or all of their benefits when they file their income tax returns. In 1995, repayment was equal to 15 cents for each dollar of individual income over 53 215 $, and at an income of over 84 000 $, benefits were fully recovered.

- Starting in 2001, the Seniors Benefit will replace the Old Age Security pension. This new program will maintain the dependence of people aged 65 or over on government assistance measures.

- The Seniors Benefit, an assistance measure financed directly by income taxes, will therefore be dependent on the federal government's financial position and fiscal priorities.

Conclusion

With a determination to secure the future of the Québec Pension Plan and guarantee that today's seniors as well as future generations can definitely count on receiving their retirement pensions, the Québec government is submitting this working paper for Quebeckers' consideration. The options presented will make it possible to ensure the Plan's long-term sustainability and at the same time preserve its main features.

The Québec government is of the opinion that the Québec Pension Plan must be maintained and that it must continue to guarantee, at age 65, a full, basic pension indexed to inflation. However, the financing of the Plan must be reviewed so as to establish greater fairness between different generations of contributors. Various ways to attain this objective can be considered: raising the contribution rate significantly, broadening the contributory base, setting an appropriate level for the reserve, and restructuring benefits. The choices that Quebeckers will make must enable the Plan to continue paying the benefits that it is currently providing and avoid saddling future generations with overly high contribution rates.

Fairness, solidarity and responsibility are the principles that will guide the Québec government in its review of the Québec Pension Plan. Achieving intergenerational equity entails raising the contribution rate quickly to a level that can remain constant for a very long period. Showing solidarity means that we must preserve the Plan so as to guarantee beyond a doubt that both today's and tomorrow's seniors can count on their retirement pensions. Finally, retirement income security must be based on sharing responsibilities among workers, employers and government. The end objective is to ensure an income level that maintains to some extent the level of pre-retirement earnings.

The Québec government has reservations about the direction taken by the federal government in the area of retirement income security and about the reductions in Canada Pension Plan retirement benefits that are currently being considered. By introducing the Seniors Benefit which is to take effect in 2001, the federal government may be jeopardizing the long-term financial security of retirees. By linking government assistance to family income, the Seniors Benefit greatly reduces the financial independence of the spouse with the lower income.

Financed directly from income taxes, the Benefit is totally subject to the federal government's financial position and its choices with regard to the allocation of resources.

The various proposals submitted for public discussion are in keeping with measures that Québec has implemented in the field of retirement income security, measures centred on insurance principles. Québec's insurance-based approach promotes collective and individual responsibility and planning rather than dependence on government.

APPENDICES

APPENDIX 1

Main elements of the Québec Pension Plan in 1996

CONTRIBUTIONS

Contribution rate	5,6%
- Employer	2,8%
- Employee	2,8%
Maximum pensionable earnings	35 400 $
Basic exemption	3 500 $
Maximum contributory earnings	31 900 $
Maximum contributions	1 786,40 $
- Employer	893,20 $
- Employee	893,20 $

BENEFITS

Contingency	Type of benefit	Beneficiary's age	Rate paid	Maximum monthly amount
Retirement	Retirement pension (25% of average pensionable earnings at age 65)	60	70%	508,96 $
		65	100%	727,08 $
		70	130%	945,20 $
Disability	Disability pension	under 65		870,89 $
	Pension for a disabled person's child	under 18		52,12 $
Death	Surviving spouse's pension (for the widow or widower)	under 45		
		- not disabled, no dependent children		356,05 $
		- not disabled, with dependent children		574,97 $
		- disabled, with or without dependent children		598,24 $
		between 45 and 55		598,24 $
		between 55 and 65		672,25 $
		65 or over		436,25 $
	Orphan's pension	under 18		52,12 $
	Death benefit			Maximum lump-sum payment 3 540 $

APPENDIX 2

Main results of the actuarial report as at 31 December 1994

1. Introduction

Under the first paragraph of section 216 of the *Act respecting the Québec Pension Plan*, the Régie des rentes du Québec must cause to be prepared at least once every five years an actuarial report bearing on the application of the *Act*.

The actuarial report is essentially aimed at projecting the cash inflow and outflow of the Plan. Cash inflow is made up of contributions and investment income. Cash outflow is made up of benefits and administration costs.

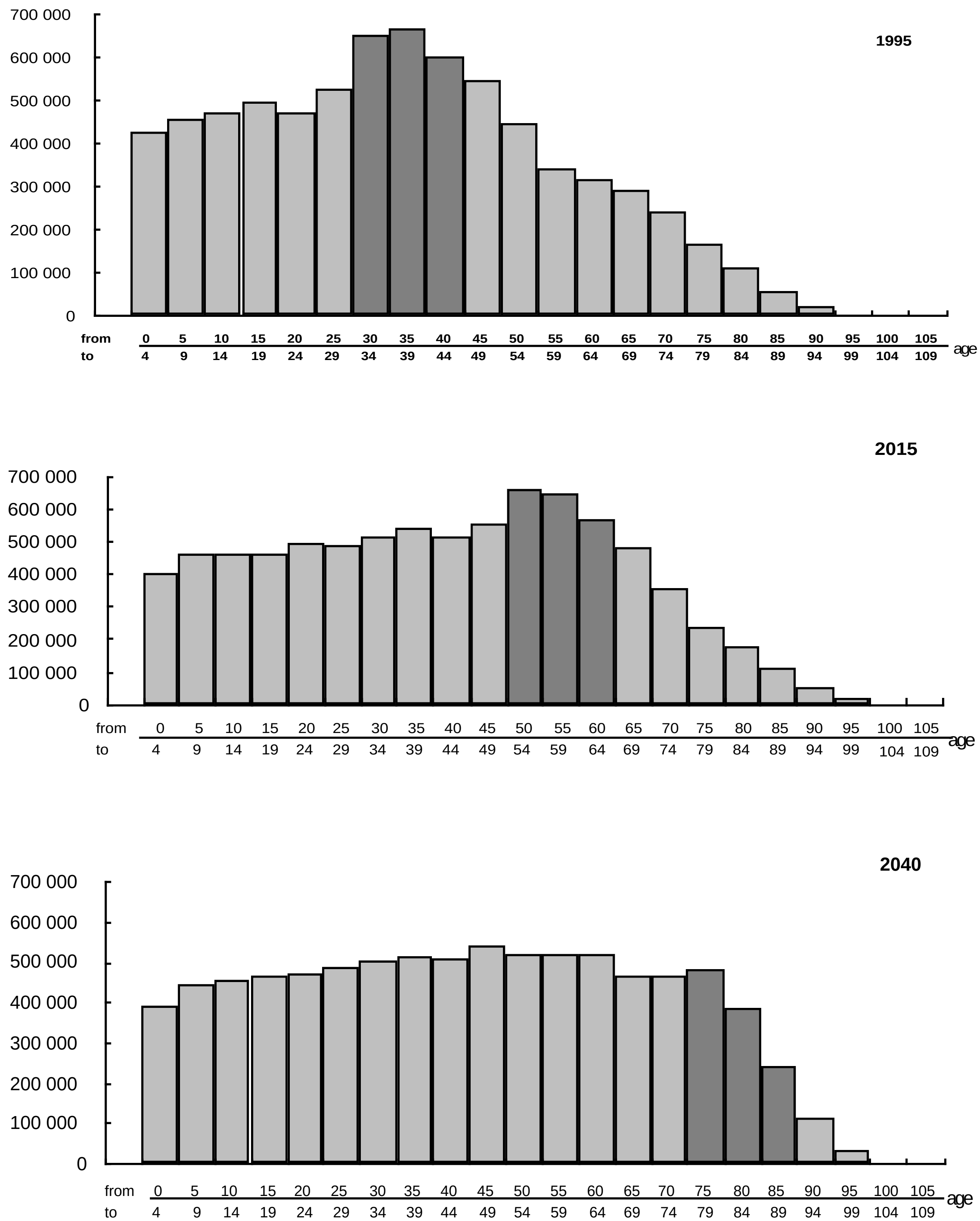
The methodology used consists in projecting the population of Québec on the basis of selected fertility, migration and mortality assumptions. By applying future employment rates and wage increase rates to the projected population, it is possible to estimate total contributory payroll. Contribution amounts are determined from the total contributory payroll and the contribution rates.

Benefit amounts are obtained through contingency factors (concerning disability, retirement and death) based for a large part on the experience of the Plan and applied to the population entitled to benefits. Investment income is based on the yield of the initial reserve and yield assumptions for new investments. Administration costs are based on observed experience. The reserve is calculated on the basis of the net result of cash inflow and outflow.

2. Demographic assumptions

Projections for the Québec population over a long period give us an idea of the impact of the baby boom, represented by the cohort born between the early 1950s and the mid-1960s. Chart 1 shows that these persons, whose age in 1995 was between 30 and 44, make up a large portion of the total population. In the year 2015, this group, then between 50 and 64, still represents a high percentage of the total population since it is followed by a less numerous generation. It becomes clear that the same cohort, aged 75-89 in the year 2040, constitutes a much larger part of the total population than in 1995 and 2015.

CHART 1
POPULATION OF QUÉBEC (by five-year age group)



3. Economic assumptions

These assumptions can be summarized as follows:

- In 1995, the increase in the average wage is 0,2% higher than the rate of inflation. Thereafter, the average wage gradually increases and is 1,2% higher than the rate of inflation by 2015. This difference remains constant in the following years.

- In 1995, the number of jobs increases by 2,5% as compared with 1994. From 1996 to 2000, it increases by an average of 1,8% a year, and from 2001 to 2010, by an average of 1,0% a year. Starting in 2020, when an unemployment rate corresponding to full-employment assumptions is reached, the number of jobs rises at the same rate as the labour force, that is, under 0,5%. Finally, the increasing presence of women in the labour force must be noted.

- The difference between the yield on new investments and the rate of inflation, which is 7,6% for the first year under study, falls over the long term, reaching 4,0% in 2021, and remains constant thereafter. The valuation of the overall yield of the Plan fund includes the yield on investments already held by the Caisse de dépôt on 31 December 1994, as well as the future distribution of new investments by category.

4. Results

Table 1 shows the reserve, cash inflow (contributions plus investment income) and cash outflow (administration costs plus benefits) for the period from 1995 to 2050.

From 14,6 billion $ on 31 December 1994, the market value of the reserve declines slowly until 1998 and then begins to increase.

An indication of the reserve’s size can be obtained by comparing the reserve at the end of one year with the cash outflow for the following year. The ratio is 11,0 in 1975 and 2,8 in 1995. It falls to 2,1 between 2001 and 2005 and then rises to 3,0 in 2025 and falls thereafter to 2,0. Chart 2 illustrates this trend.

CHART 2
CHANGES IN THE RATIO OF THE RESERVE AT THE END OF ONE YEAR TO CASH OUTFLOW OF THE FOLLOWING YEAR

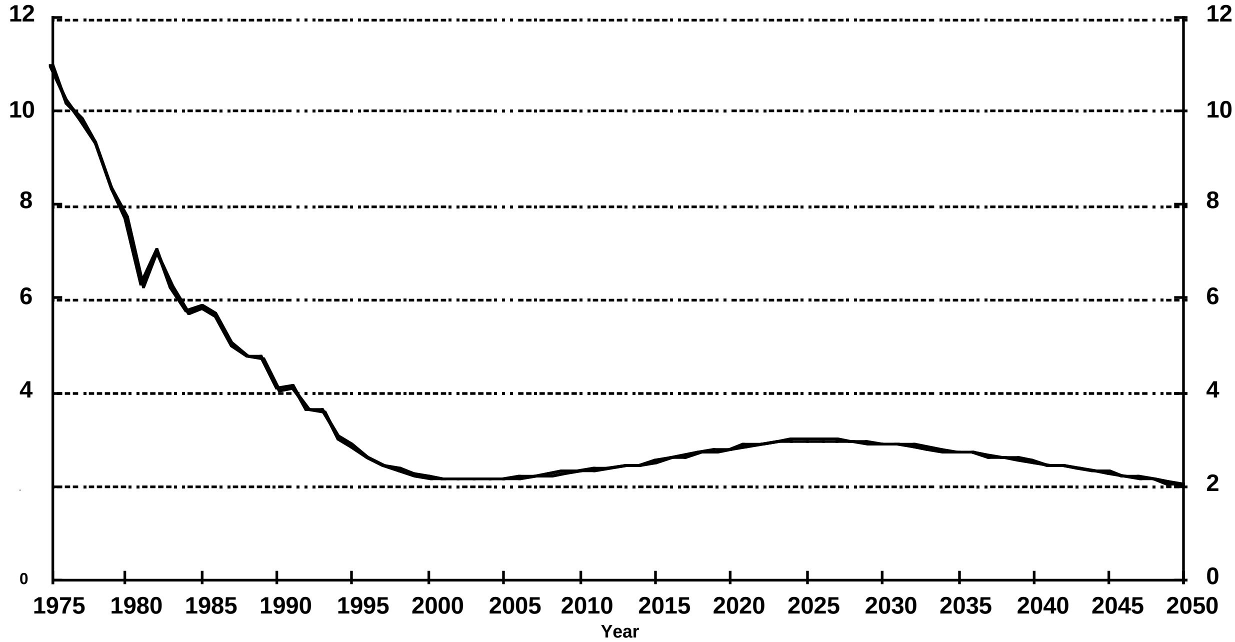


TABLE 1

PROJECTED RESERVE
(in millions of current $)

		Cash inflow			Cash outflow			Reserve	
Year	**Contribution rate***	**Contributions**	**Investment income**	**Total**	**Benefits**	**Administration expenses**	**Total**		**As a proportion of cash outflow of the following year**
	%	$	$	**$**	$	$	**$**	$	
1995	5,40	3 305,7	1 219,8	**4 525,5**	4 713,3	87,3	**4 800,6**	14 327,9	2,8
1996	5,60	3 550,0	1 197,5	**4 747,5**	4 994,5	89,8	**5 084,2**	13 991,1	2,6
1997	6,00	3 953,0	1 190,1	**5 143,1**	5 255,2	92,6	**5 347,8**	13 786,4	2,5
1998	6,40	4 399,9	1 169,3	**5 569,2**	5 517,1	96,0	**5 613,1**	13 742,5	2,3
1999	6,80	4 879,4	1 167,5	**6 046,9**	5 799,4	99,5	**5 898,8**	13 890,6	2,2
2000	7,20	5 412,4	1 204,0	**6 616,3**	6 113,4	104,2	**6 217,6**	14 289,3	2,2
2001	7,60	6 009,0	1 253,5	**7 262,4**	6 467,2	109,6	**6 576,7**	14 975,0	2,1
2002	7,85	6 519,9	1 299,0	**7 818,9**	6 859,9	115,1	**6 975,0**	15 818,9	2,1
2003	8,10	7 058,5	1 361,5	**8 420,0**	7 296,8	120,8	**7 417,6**	16 821,3	2,1
2004	8,35	7 644,5	1 435,1	**9 079,7**	7 777,5	126,9	**7 904,4**	17 996,6	2,1
2005	8,60	8 286,5	1 532,0	**9 818,5**	8 307,1	133,5	**8 440,6**	19 374,5	2,1
2006	8,85	8 988,7	1 626,4	**10 615,1**	8 892,0	140,8	**9 032,7**	20 956,9	2,2
2007	9,10	9 730,9	1 733,8	**11 464,7**	9 525,2	148,2	**9 673,4**	22 748,2	2,2
2008	9,35	10 519,2	1 851,6	**12 370,8**	10 209,4	155,9	**10 365,3**	24 753,6	2,2
2009	9,60	11 329,9	1 983,2	**13 313,1**	10 946,9	163,6	**11 110,5**	26 956,3	2,3
2010	9,85	12 225,4	2 131,0	**14 356,4**	11 743,8	172,0	**11 915,8**	29 396,9	2,3
2015	11,10	17 560,4	3 141,8	**20 702,2**	16 666,4	219,3	**16 885,7**	45 385,4	2,5
2020	12,35	24 710,0	4 906,0	**29 616,0**	23 488,9	277,3	**23 766,2**	70 896,8	2,8
2025	13,00	32 201,4	7 270,3	**39 471,6**	32 546,4	343,3	**32 889,7**	103 951,2	3,0
2030	13,00	39 967,1	9 493,2	**49 460,3**	43 429,4	426,1	**43 855,5**	133 870,1	2,9
2040	13,00	63 246,8	13 374,0	**76 620,7**	70 577,6	674,3	**71 251,8**	187 402,2	2,5
2050	13,00	100 143,6	16 983,9	**117 127,6**	111 713,0	1 067,7	**112 780,6**	236 747,1	2,0

* Only the contribution rates for 1995 and 1996 are provided for in the *Act*.

Table 2 shows the ratio of cash outflow to total contributory payroll. The ratio of cash outflow to total contributory payroll rises from 7,8% in 1995 to 10,7% 20 years later and to 14,6% in 2050. This increase is an indication of the inadequacy of the present contribution rates set by the *Act*, which are 5,4% in 1995 and 5,6% in 1996.

TABLE 2

PROJECTED CASH OUTFLOW AND PAY-AS-YOU-GO RATE ACCORDING TO CERTAIN ECONOMIC VARIABLES
(in billions of current $)

Year	– A – Cash outflow	– B – Total contributory payroll	Pay-as-you-go rate (A/B)
	$	$	%
1995	4,8	61,2	7,8
1996	5,1	63,4	8,0
1997	5,3	65,9	8,1
1998	5,6	68,7	8,2
1999	5,9	71,8	8,2
2000	6,2	75,2	8,3
2001	6,6	79,1	8,3
2002	7,0	83,1	8,4
2003	7,4	87,1	8,5
2004	7,9	91,6	8,6
2005	8,4	96,4	8,8
2006	9,0	101,6	8,9
2007	9,7	106,9	9,0
2008	10,4	112,5	9,2
2009	11,1	118,0	9,4
2010	11,9	124,1	9,6
2015	16,9	158,2	10,7
2020	23,8	200,1	11,9
2025	32,9	247,7	13,3
2030	43,9	307,4	14,3
2040	71,3	486,5	14,6
2050	112,8	770,3	14,6