



Adapting the Pension Plan to Québec's new realities

■ Times are changing...

"Times are changing..." we often hear, without thinking about the truth behind this expression. We sometimes forget why certain choices were made and how we adapted. Consider the changes that have taken place in healthcare and education from the Quiet Revolution up to today. Over the last forty years or so, the financial situation of retirees has changed along with society. The Québec Pension Plan was the starting point of this change.

■ From 1966 until today

The Québec Pension Plan began in 1966. At that time, Québec society was still tightly knit and just about everyone agreed on a shared set of religious, family and personal values.

Marriage was for life, and divorce rare. Only a few women had a career, and most stayed at home to raise their children. Generally, only the man brought home a paycheque. At that time there were typically three children per family.

Education rarely went beyond elementary school. Close to 95% of the population was under age 65. Life expectancy was 72 years, compared with 79 today. In 1966, there were eight people of working age for each person aged 65 or over.

In 2003, 37 years later, how things have changed! And we must accept certain facts: the population of Québec is aging faster than elsewhere; the labour force is substantially different from what it was in 1966; we no longer approach the transition from work to retirement in the same way; and life as a couple and as a family has changed dramatically. These changes have an impact on the Québec Pension Plan, which must continue to provide basic financial protection to workers and their families at retirement or in the event of disability or death.

■ The 1998 reform has been effective

In 1998, the government carried out a major reform of the Québec Pension Plan in anticipation of the aging of the population and its impact on the Plan's costs. The principal measure, an accelerated increase in the contribution rate, set at 9,9% as of 2003, has made it possible to accumulate enough money in the reserve to ensure the sustainability of the Plan when large numbers of baby boomers reach retirement age.



■ The Plan is closely monitored

At the time of the reform, the government adopted measures to closely monitor the Plan and to make changes as necessary. An actuarial analysis now takes place every three years rather than every five years. A public consultation must be held every six years. These measures ensure that people can be confident that the Plan will stay on the right track.

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The Régie is proposing **changes**
to the **Pension Plan** to adapt it
to Québec's **new realities**.

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For a better adapted more flexible and fairer Pension

The Retirement Pension

Yes, times are changing! The population is aging more quickly in Québec than elsewhere. The labour force and the transition from work to retirement are in a period of transformation. Life as a couple and as a family is changing dramatically. These new realities influence our present as well as our future and thus also have an effect on the Québec Pension Plan, which must change with the times. But our first priority must be to keep the Plan in good financial health.

As we have seen, the reform of 1998 was successful, and the future of the Plan is assured in the long term. At the time of the reform, the government took strong measures to closely monitor changes in the Plan: an actuarial analysis every three years and a public consultation every six years. The next public consultation, which will take place early in 2004, will be an opportunity to review certain elements of the Plan in relation to changes in Québec society.

Now we come to the principal changes that are being proposed for adapting the Québec Pension Plan to Québec's new realities.

INCREASED FLEXIBILITY IN RETIREMENT OPTIONS

Currently, you can receive your retirement pension as of age 60 under certain conditions: if you have stopped working or if you expect to earn less than 9 975 \$ in the 12 months following your application, or if you have reached an agreement with your employer to reduce your salary at least 20% as part of a phased retirement. Starting at age 65, you can receive your retirement pension even if you are still working.

It is proposed that you would be able to apply for your retirement pension at any time you wish, as of age 60, even if you continue to work.

SIMPLIFIED CALCULATION

Currently, your retirement pension is equal to 25% of the average of the earnings for which you made contributions during your contributory period. This period begins at age 18 (or in 1966 if you turned 18 before the Québec Pension Plan began) and ends when you begin receiving your retirement pension. In calculating your average earnings, 15% of the months in your contributory period are ignored. They correspond to the months in which your earnings were the lowest. The earnings of years spent taking care of a child under age 7 can also be excluded if it is to your advantage.

It is proposed to calculate your retirement pension on the basis of all your pensionable earnings.

Pensionable earnings are those on which you have made contributions to the Québec Pension Plan; for example, in 2003, you contribute to the Plan on a salary between 3 500 \$ and 39 900 \$. No matter when you begin to receive your retirement pension, (at age 60 or later), your retirement pension would be calculated in the same way, and all your contributions would increase your pension.

$$\frac{25\% \times \text{total earnings}}{40^*}$$

The provision relating to the years spent taking care of a child under age 7 would be maintained

*The factor 40 represents the presumed number of years spent working.

IF YOU WAIT UNTIL AFTER AGE 65, YOUR PENSION WILL BE HIGHER

Currently, if you begin receiving your retirement pension between ages 60 and 65, it is reduced 0,5% per month for each month of retirement before your 65th birthday. Conversely, if you begin receiving your retirement pension after age 65, it is increased 0,5% for each month between your 65th birthday and the beginning of your retirement, until age 70.

It is proposed that the reduction of 0,5% a month between ages 60 and 65 remain the same. However, the pension of a person who waits until after age 65 to apply would be increased by 0,7% for each month between the 65th birthday and the month in which the application is made (up to age 70).

WORK TO INCREASE THE PENSION

Remember that if you receive a retirement pension while continuing to work, you must make contributions to the Québec Pension Plan. Currently additional contributions do not always result in a pension increase. Under the proposed changes, additional contributions would systematically increase your retirement pension up to the maximum payable. The maximum is 801 \$ for a worker who started receiving a retirement pension at age 65 in 2003.

FLEXIBILITY MEANS FREEDOM

The proposed changes would make the transition from work to retirement more flexible, and the rules would be simpler. They would give the worker more freedom in choosing when to leave, gradually or definitively, his or her work. In addition, these changes would make working past retirement age more attractive to individuals who continue working.

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The Disability Pension

A MORE ADVANTAGEOUS CALCULATION

Currently, a worker who has made sufficient contributions to the Québec Pension Plan can receive a disability pension if he or she is *under age 65* and has a severe and permanent disability which makes it impossible to perform *any type of work* that would allow him or her to earn a living. Furthermore, a worker who is *between ages 60 and 64* can also receive a disability pension if, for health reasons, he or she is unable to perform his or her *usual work*. The disability pension is composed of a fixed portion, which is the same for everyone (370 \$ a month in 2003), and an additional amount which varies according to the contributions made. At age 65, payment of the disability pension ends and it is replaced by a retirement pension.

It is proposed to provide protection to all workers in the event of a severe and permanent disability before age 65. Disabled workers aged 60 to 64 who could not continue to do their usual work would be entitled to a retirement pension like other workers.

The fixed portion of the disability pension would increase to 462 \$ a month, that is, the same amount as the Old Age Security pension from the federal government. At age 65, payment of the fixed portion would end since the beneficiary then becomes eligible for the "old age pension." Thus no one would be shortchanged since the amount would be the same but would come from a different source. The variable portion would continue to be paid as a retirement pension so that the individual could maintain his or her standard of living.

CONTINUITY AND COHERENCE

There would no longer be two categories of disability, one for workers under 60 and another for workers aged 60 to 64. Moreover, the new rules for calculating a disability pension would ensure a more stable income for the disabled worker who turns 65.

THE QUÉBEC PENSION PLAN IN 2003



- 3,6 million workers make contributions, for a total of 7,6 billion \$;
- 1,3 million beneficiaries share 7 billion \$;
- the Plan's reserve was 18 billion \$ on 30 September 2003.

Pensions following a death

NECESSARY ADJUSTMENTS

Since more and more often both spouses contribute to the financial support of the family, should we continue to pay the surviving spouse a pension for life in every case—especially if the spouse is young and has no dependant children? Do we adequately take into account the presence of children? Does the Plan adequately meet the needs of all family types?

A NEW APPROACH

Currently, if your spouse dies and he or she has made sufficient contributions to the Québec Pension Plan, you are entitled to a surviving spouse's pension and your children are entitled to an orphan's pension. The surviving spouse's pension is composed of a variable portion based on the contributions of the deceased worker and a fixed portion of up to 400 \$ a month, depending on your age, state of health, and family situation. The surviving spouse's pension is paid for life and the orphan's pension is paid until age 18.

It is proposed, in the case of a spouse who is not retired, that the surviving spouse's pension be temporary. It would be paid for 3 years; however, it would be higher than the current pension. In addition, the spouse's account would be credited with 60% of the earnings entered in the Québec Pension Plan under the name of the deceased worker for each year of their life together.

The surviving spouse who is retired would receive for the rest of his or her life a pension equivalent to 60% of the retirement pension of the deceased spouse. The surviving spouse would be able to receive both a retirement pension and a surviving spouse's pension up to the amount of the maximum retirement pension under the Plan.

Thus the benefits for the surviving spouse would vary depending on whether he or she is of working age or retired.

Changes to be gradual

Those already receiving a pension under the Québec Pension Plan would not be affected by the new measures. Their pensions would continue to be paid as before. Only new pensions would be affected and the changes would be introduced gradually.

It is proposed to increase the orphan's pension from 59 \$ to 187 \$ a month.

This significant increase in the orphan's pension would offset the temporary pension paid to the spouse and make it possible to direct more financial assistance to the children, who are, in fact, the real dependants.



Aging — a major concern!

The population is aging more rapidly in Québec than elsewhere. In the 1960s, people aged 65 and over represented approximately 6% of the population. Today, this proportion has reached 12%; it is more or less the same as in the rest of Canada and the United States. In about 30 years, 24% of the population will be aged 65 and over. Elsewhere in Canada, it will take about 40 years to reach the same proportion.

Québec has fewer workers relative to retirees. In the 1960s, there were eight people aged 20 to 64 for each person aged 65 and over. Today, there are five people of working age per retiree. In 2030, there will be only two workers per retiree. Fortunately, the 1998 reform substantially improved the Plan's funding and its future is now assured.

Nevertheless, the aging of the population and the reduction in the number of workers imposes significant financial pressure on the Québec Pension Plan.

A very different labour force!

In Québec, we tend to leave the labour force earlier. The average age at retirement, which was 65 in 1970, is now 60 in Québec, compared to 61½ elsewhere in Canada and 63½ in the United States. In 1970, the average length of retirement was 13 years; it is now 19 years. An increasing number of women are entering the labour force. In 1966, 35% of women aged 20 to 64 held a job compared to 72% in 2002.

Education levels are higher. In 2010, when many baby boomers will reach retirement, more than three-quarters of individuals aged 55 to 64 will have a high school diploma or more. As for young people, they are more and more likely to combine studies and work. It is estimated that 50% of full-time students aged 20 to 24 have a job, two times more than in 1976.

The attitude of employers and workers toward phased retirement is changing. A recent survey indicated that three out of four companies are prepared to reorganize the work load to encourage their older employees to continue working. Another survey revealed that one worker out of two would consider staying employed longer if work hours were more flexible.



It is obvious that all the factors that have transformed the Québec labour force also have an impact on the Québec Pension Plan.



Families aren't what they used to be!

At the time the Québec Pension Plan began (1966), the Québec family typically included a father, a mother and children. Although the traditional family is still the choice of many, other types of families have appeared as a result of new unions and breakdowns. Today, one child out of four lives with just one of his or her parents, either in a single-parent or a blended family. Unions are less numerous and less stable than previously. One out of two marriages ends in divorce.

At the same time, there are more and more women in the labour force. In 1976, three out of ten women with children under age 6 worked; by the end of the 1990s, this number had doubled. Roles within the family are now shared. Most often, both spouses contribute to the financial support of the household. Consequently, in the event of the death of one spouse, the other is generally less affected financially.

In short, couples and families have changed dramatically since the Québec Pension Plan came into effect. As new needs arise, adjustments become necessary.

The Canada Pension Plan and the Québec Pension Plan to remain similar

Another concern is to preserve the similarity between the Québec Pension Plan and the Canada Pension Plan, its counterpart in the rest of the country. This close relationship makes it possible to assure the competitiveness of companies and to

facilitate the mobility of workers. It also makes it simpler for workers who participate in both plans, since they are able to obtain their pension from their province of residence when they retire without additional effort.

The changes proposed to the Québec Pension Plan will also make it possible to avoid a gap between the financial situation of the Canada Pension Plan and that of the Québec Pension Plan.

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