



College and University  
Retiree Associations  
of Canada

78 Pleasant Blvd.  
Suite 997  
Toronto ON M4T 1K2

Associations de retraités  
des universités et collèges  
du Canada

curac@curac.ca  
www.curac.ca

**SUBMISSION/MÉMOIRE**  
**to the Secrétariat des Commission des affaires sociales**  
**on the subject of the working paper:**

**“Vers un Régime de rentes du Québec renforcé et plus équitable”**  
**“Toward a Stronger and Fairer Québec Pension Plan”**

This brief from the Pension Committee of CURAC/ARUCC is directed to the General Consultation regarding the Québec Pension Plan. As the only national Canadian federation of post-secondary retiree organizations, CURAC/ARUCC speaks for the interests of some twenty thousand retired faculty and staff in associations on sixty campuses of our major academic institutions in every Canadian province. Our Québec member organizations at this time include retirees' associations at most of the francophone universities and at Bishop's, Concordia and McGill universities.

The **CURAC Pension Committee** is comprised of retired Professors Paul Huber, Chair, (Dalhousie) and Howard Fink (Concordia).

Professor Paul Huber  
Chair, Pension Committee

Professor John Meyer  
President, CURAC

Professor Howard Fink  
Member, Pension Cttee

August 14, 2009

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CURAC Member Organizations:

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## 1. Prefatory Comments

We wish to thank Hon. Sam Hamad, Minister of Employment and Social Solidarity, for advising our organization regarding the public consultation this autumn on the Québec Pension Plan [QPP].

We also wish to express our appreciation to the Régie des Rentes for the clarity of its working paper, “Toward a Stronger and Fairer Québec Pension Plan” [hereafter, TSFQPP].

CURAC/ARUCC welcomes this opportunity to make a submission regarding possible changes to the QPP. Nous regrettons que nous avons manqué le temps pour préparer ce mémoire en français parce que nous avons reçu les nouvelles de votre projet très tard.

The mandate of CURAC’s pension committee is to protect the pension entitlements of its members in the context of their membership in Canadian and Québec society. Pension entitlements – whether private or public – depend crucially on funding, so we are concerned regarding the funding situation of the QPP, just as we are concerned in respect of that of the Canada Pension Plan [CPP]. At the same time, we are fully aware that pension funding does not occur in a social and economic vacuum. It depends crucially on

- \* the magnitude of pension promises that have already been earned (which may be in the process of payment),
- \* the on-going success in investing accumulated past pension contributions,
- \* the levels of contributions of current employees and employers, and
- \* the extent of new, and as yet unearned, promises.

In an ideal world in which unexpected contingencies occasionally arose that resulted in expected and relatively minor funding shortfalls, these shortfalls would be met by relatively minor reductions in promises being earned and relatively minor contribution increases, i.e., modification of the last two elements listed, only. Subsequently, when shortfalls were replaced by surpluses, these changes could be reversed. Such an approach would impose the entire burden of meeting funding shortfalls on current employees and their families. No existing beneficiary would lose any of his or her entitlements. However, if the shortfall were significant, this could easily result in an unfair distribution of burdens between generations, thus weakening intergenerational solidarity.

We do not claim to know what the optimal trade-off is between intergenerational solidarity and saddling the current generation with excessive burdens to pay current pensions that are underfunded. But clearly there is a trade-off, as is recognized on page 23 of TSFQPP.

This short submission is organized as follows. Section § 2 discusses the funding situation of the QPP reserve fund, as described in TSFQPP and implicitly modified through the poor investment results revealed by the Caisse de dépôts et placements du Québec six months ago and again on 12 August 2009. Then it considers relationships between the QPP on the one side and the Canada

Pension Plan [CPP] on the other. Section § 3 deals with proposals to reduce incentives in the QPP that encourage early retirement in favour of those that will facilitate late retirement. Section § 4 briefly reviews survivor benefits under the QPP. The final section, § 5, is concerned with avenues to modernize and improve QPP, many of which will require coordination with the rest of Canada [ROC] if the traditionally high degree of similarity between the two plans is to be maintained.

## 2. Observations

2.1. As the Working Paper makes clear, the QPP appeared to be underfunded in early 2008. Since then, investment markets have been unusually volatile and the QPP reserve fund has been reported to have suffered significant losses. Consequently, the level of underfunding at the present time is likely worse than it was 20 months ago. Some of the causes of this underfunding are shared with the sister Canada Pension Plan [CPP], but other causes differ, notably:

- \* a smaller QPP reserve fund in relative terms as at 30 June 2009;
- \* more rapid demographic aging in Québec than in the rest of Canada [ROC];
- \* somewhat more generous QPP disability and survivor benefits than under the CPP;
- \* lower effective contribution rates than those for the CPP, which result from somewhat lower average salaries in Québec than in the ROC; and
- \* retirement about two years earlier on average in Québec than in the ROC.

2.2. In accordance with the Act respecting the Québec Pension Plan, an actuarial analysis must be conducted as at 31 December this year. Although it is premature to guess what this analysis will reveal, nonetheless a noticeably worse result than in 2006 is quite possible. Should this prove to be the case, the proposals in the Working Paper to relieve the funding stress on the Plan may have to be reconsidered and stronger actions taken.

2.3 “The QPP and the CPP have always respected their agreements to ensure the transferability of benefits for dual contributors” [TSFQPP, p. 21]. Despite this, the two plans are not identical, though very similar. According to the TSFQPP [p. 20],

- “... key parameters that should not differ between the QPP and the CPP [include] . . .
- insurable earnings: earnings up to the maximum pensionable earnings;
  - income replacement rate: 25% for the retirement pension;
  - normal retirement age: 65.”

Two important implications of the “tacit consensus” in this respect follow:

- \* Québec cannot alter these parameters without the ROC doing virtually the same;
- \* the ROC cannot alter these parameters without Québec making virtually the identical changes.

In other words, both sides are tacitly constrained to coordinate with one another any changes in these variables, as well as in some others.

### **3. Shifting QPP Incentives away from Early Retirement toward Late Retirement**

3.1. Given on-going reductions in age-specific mortality rates in Québec, we are not surprised that increasing numbers of Québécois choose to work after early or normal retirement at age 65. At the same time, we are concerned about the gradual decrease in the ratio of active life to retirement outlined in TSFQPP, [p. 25], particularly given the outdated assumption that labour market entry has remained constant at age 20. (We suspect that the average labour-market entry age has been rising along with increasing post-secondary education levels in Québec.)

Many of CURAC's Québec members have worked beyond age 65. Others undoubtedly would have done so, if flexible phased retirement arrangements had existed when they retired. Hence, we strongly support the actions taken by the Québec government to eliminate disincentives to phased retirement. In our view, these initiatives will help check or even reverse the downward trend of the ratio of active to retirement years. And we agree that the proposal "to allow a worker to apply for a retirement pension . . . even if he or she continues to work" [TSFQPP, p. 29] would add flexibility to the retirement decision. However, in the context of the funding pressures facing the QPP, such a proposal makes sense only if the actuarial reduction factors applicable to early retirement are based on conservative actuarial assumptions.

3.2. We also support basing the retirement pension on the best 40 years of earnings, regardless of the beneficiary's age when the pension starts [TSFQPP, p. 30]. This would slightly reduce existing incentives to early retirement for those earning above \$30,000 annually.

3.3. We have misgivings about the proposal to increase the actuarial augmentation factor applicable to delayed retirement from 6.0% to 8.4% per annum from age 65 up to age 70. Is this number based on current conservative actuarial calculations, or does it derive from generous actuarial assumptions in 2003, six years ago? A plan that has a funding problem can ill afford to create expensive new subsidies, particularly those that are likely to be effective in

attracting more than the current proportion of retirees. Prudence suggests a less generous actuarial augmentation factor.

3.4. The proposal to supplement a pension in pay by 0.5% of the new contributory earnings of someone who returns to work after retiring is more generous for those aged 60-69 (with average age-specific life-expectancy) than the existing rules under the CPP, where the new employee's CPP contributions are simply returned (with a delay). But it captures for the QPP reserve fund much of the employer share of the contribution, so it is actuarially unfair to employed seniors. In the current QPP situation of underfunding, this may be defensible. However, as the funding level gradually improves, we hope that the QPP will be able to increase the proposed 0.5% supplement to an actuarially fairer level.

3.5. With respect to increasing the QPP retirement age, TSFQPP [p. 32, box] argues against any change at this time. We respectfully disagree. We analyse this option below in section § 5.

3.6. We favour greater consistency of treatment of Québécois who are in like circumstances. Hence we broadly agree with the proposals regarding disability, particularly for the age bracket 60 to 64.

## 4. Modernizing Survivors' Benefits

We generally agree with these proposals, some of which have been under discussion for a number of years. However, we caution that arguments based on average circumstances ignore the very real situations of persons outside society's mainstream; implementing arrangements based on averages may leave many individuals and families poorly protected or disadvantaged. Policies should be put in place that are truly fair and equitable, rather than merely "average."

In particular, your description of the new formula for surviving spouses, which, *inter alia*, reduces the duration of survivor benefits to ten years after the death of the original pension-holder, concludes:

"Thus, in spite of the proposed changes, the Plan will continue to provide protection for life for the large majority of future surviving spouses." [TSFQPP, p. 43]

What about the small minority of surviving spouses? Must they fend for themselves? We find the arguments supporting the Working Paper's conclusion unconvincing concerning the needs of single working survivors, particularly with a number of minor children. In our view, it would be more consistent with the socially-conscious motivation of the Régie to leave survivors' allowances

unchanged, and to find another solution to the problem of such costs; for example, to make the ending of a survivor's allowance age-related, to ensure that children will not be deprived until each of them is of working age (currently 20 years).

## 5. Avenues to Explore to Modernize and Improve the QPP

5.1. Four desirable modifications to the QPP should be given serious consideration:

- \* increase the insured level of earnings above the average industrial wage in Canada;
- \* raise the extent of income replacement in small steps from 25% to perhaps twice that level. This obviously would necessitate higher contribution levels for current employees to pay for the increased future benefit;
- \* increase the normal retirement age gradually from 65 years to, say, 67 years; and
- \* make indexation of existing and future pensions partially contingent on investment returns of the QPP reserve fund.

5.2. The first three of these changes should obviously be coordinated with changes in the CPP, just as changes in that Plan should be coordinated with Québec. Probably the fourth change should be coordinated as well.

5.3 This is a uniquely favourable time to launch an effort to modify these parameters, while maintaining the coordination between the two plans. In the wake of recommendations for a supplementary occupational "ABC Pension Plan" in *Getting our Acts Together*, the joint Alberta, British Columbia report on pension reform, discussions began three months ago among Ontario, British Columbia, Alberta, Manitoba, Nova Scotia and the Canadian government regarding possible ways to supplement or amend the Canada Pension Plan. Among other options, the first two modifications listed above have been advanced. But in light of the constraints described above in § 2.3, these proposed amendments to the CPP have not been warmly received, even though commentary from independent observers clearly establishes that these options provide the best approach to pension reform in Canada at this time.

The Government of Québec clearly shares with the federal government a commitment to maintaining the similarity of the QPP with its federal counterpart.

*We strongly urge the Government of Québec to open communication with those already involved in these interprovincial discussions as an interested player that is faced by similar challenges and corresponding constraints.*

5.4. To consider the logic underlying each of these four modifications to the QPP, one must understand that inadequate pension coverage is the overriding issue. The limited extent of supplementary (private) pension plans and RRSPs leaves large numbers of Canadians and Québécois with little or no pension income except via OAS/GIS and the CPP/QPP. Adequacy of income for seniors is a serious issue in all provinces at a time when people are generally living longer. Setting a new maximum pensionable earnings level at, say, 1.5 times the Canadian average industrial wage would help reduce the coverage gap. But even more coverage would follow from increasing the QPP replacement rate above 25%.

Furthermore, the vast majority of defined benefit plans across the country are integrated with CPP or with QPP, so that for sponsors of these plans, no cost increase would arise from an extension of QPP. Instead, a welcome reduction of risk would be experienced by most DB plan sponsors.

Increases in the normal QPP retirement age by – say – 1.5 months per year commencing in 2012 would lead to a gradual increase in actuarial reduction factors for retirements at ages below 65 and a phased drop in actuarial augmentation factors for retirements at age 67 and above. This clearly would gradually improve the funding situation of the QPP by slightly reducing the benefits flowing to those retiring at each age and encouraging continued attachment to the labour force.

5.5 A scheme of pension indexation that is partially contingent on investment returns of the pension reserve fund exists in some private-sector pension arrangements. Properly structured, it can permit partial or total catch-up of “missing” CPI indexation when investment returns recover. A major advantage of this sort of arrangement is that it helps maintain intergenerational solidarity. We suggest that the QPP give serious consideration to this option.