

IMPORTANT

RETIREMENT PLAN NEWS

POSSIBLE CHANGES TO PENSION PLAN APPLICABLE AS OF JANUARY 1st, 2013

ATTENTION: This information has NOT YET BEEN ADOPTED by the National Assembly and therefore is NOT YET IN FORCE.

This is an agreement between management associations in the health and social services network, education and public service and the Treasury Board. This agreement bringing modifications to our pension plan must be filed as a Bill and passed by the National Assembly before being in force. We do not anticipate the filing of this Bill before the end of February 2012. In addition, should there be elections before the filing of this Bill, the amendments would not apply.

As was previously mentioned in our December issue of our Info-Cadre, our retirement plan (RRPE) has taken a major hit financially in 2008 and 2009. In 2010 there were better results but these are insufficient to compensate for those two years. APER has been working in cooperation with management associations of three sectors (health and social services, education and public service) and the Treasury Board to try and find solutions.

Our retirement plan has characteristics that make it different from other retirement plans as it is now mature with as many active managers as retired managers. Because of this, we had to evaluate the regime in order to stabilize the cost for active managers. It was decided in December 2010, to increase the premium by only 1%. The actuarial evaluation by the CARRA had suggested an increase of 3%. We started working on different propositions and solutions to ensure the regime's sustainability as well as have reasonable contribution rates for active managers.

Our representatives had a meeting with the Treasury Board on October 31st and we received a proposition from them. We have worked on the said proposition and given the Treasury Board a counter proposition. **At the end of December 2011, all parties have agreed on a proposition that is not yet applicable because the Bill has not yet been deposited to the National Assembly. This is an agreement in principal and these modifications will only be in force when the Bill has been accepted by the National Assembly and we do not expect this Bill to be tabled before the end of February 2012.**

Notwithstanding this important fact, APER (member of the CERA) has decided to give you this information before its enforcement because of misinformation circulating in our network.

PLANNED CHANGES TO THE PENSION PLAN OF MANAGEMENT PERSONNEL DISCUSSION PAPER

✓ **Background**

For several years, there has been strong upward pressure on the contribution rate of the members of the Pension Plan of Management Personnel (PPMP). In fact, the rate has been rising constantly since the creation of the plan and has been at a peak of 11.54% since January 1, 2011. That is mainly due to the funding deficit of the PPMP, a result of the negative investment returns sustained in the 2008 crisis, the effects of which are exacerbated by the participant's demographic profile. For the PPMP, the ratio between the number of active members and the number of pensioners was at 1.2 members for 1 pensioner in 2010. It could shortly reach 1 for 1. Furthermore, the impact of the high average age and salary of contributors boosts the contribution rate.

If no action is taken, the PPMP contribution rate could reach a high of 16% or 17% in 2014. Given that, various steps have been taken by the PPMP pension committee to find ways to improve the financial health of the plan. A working committee was created by the consultation group to examine the provisions of the PPMP from the standpoint of ensuring the plan's sustainability, maintaining the contribution rate of members at a reasonable level and preserving the plan's distinctive character.

The committee is composed of the Regroupement des associations de cadres en matière d'assurance et de retraite (RACAR), the Coalition de l'encadrement en matière de retraite et d'assurance (CERA) and the Secrétariat du Conseil du trésor (SCT). It is important to point out that the contribution rate required according to the actuarial valuation at December 31, 2008 was 13.59%. Considering the above, the increase on January 1, 2011 was limited from 10.54% to 11.54%.

Proposed changes:

The proposed changes concern certain provisions of the PPMP, mainly those governing qualification for the plan, eligibility for a pension and returning to work. In addition, changes are proposed concerning the establishment of the contribution rate and the method of funding the PPMP.

- ✓ **Provisions of the plan**
- ✓ **PPMP qualification rules**

Current situation: At the present time, PPMP members qualify for the plan (that is, members will participate in the plan for the duration of their careers, even if they hold unionizable employment) at the end of a period of two or four years, depending on the percentage of full-time work in non-unionizable employment. If the members return to unionizable employment before qualifying, they resume participating in the Government and Public Employees Retirement Plan (RREGOP).

Proposed changes:

- ✓ **Extension from two to seven years of the total qualification period**
- ✓ **Partial qualification period between the second and seventh years of contribution to the PPMP**

Firstly, it is proposed that the total duration of the qualification period applicable to new members who begin to contribute to the PPMP as of January 1, 2013 be increased from two to seven years. Members in the process of qualifying on that date would continue to be referred to by the current provisions, namely, a period of two or four years in non-unionizable employment.

Secondly, it is proposed that complete qualification henceforth be acquired on the basis of the contributions to the PPMP instead of the holding of non-unionizable employment. Thus, an employee would have to have contributed at least seven years to the PPMP before being able to take full advantage of the PPMP benefits.

Thirdly, the total seven-year qualification would be divided into two distinct periods:

- ✓ 7 years: full qualification
- ✓ 2 years: partial qualification

During the first two years, the applicable provisions would remain the same as those currently in effect for total qualification. For example, the provisions of RREGOP apply to a member who returns to unionizable employment or who retires during those first two years.

After two years of contribution to the PPMP, members would be partially qualified. However, to have access to all the PPMP benefits, they would have to continue to contribute to the plan until achieving full qualification, i.e. during a total of seven years.

In the case of a shift to unionizable employment after two years of contribution but before achieving full qualification, employees would remain referred to by the PPMP and continue to contribute to it. Once that total period of seven years of contribution is completed, employees could take advantage of all the provisions of the PPMP, regardless of the employment held in the course of their careers.

For all members, whether they change employment or not, who cease contributing to the PPMP after two years but before seven years (for example, because of cessation of employment or retirement), they would receive benefits equal to those applicable to the members of RREGOP. However, in cases of death, the applicable provisions would be those of the PPMP.

In the case of employees in part-time non-unionizable employment, the first period (partial qualification) would be four years instead of two years. Then, the members would have to continue to contribute for at least five years more in order to achieve full qualification.

For members who retire before being fully qualified and who return to work and elect to resume contributing to the PPMP, the additional years of service could not make it possible for them to achieve full qualification. Thus, at the time of the employees' second departure for retirement, their pension could be recalculated, but according to the same provisions as those used for the initial calculation.

✓ **Pension eligibility criteria**

Current situation: At the current time, PPMP members can retire with no actuarial reduction if they meet one of the following criteria:

- 60 years of age;
- 35 years of service with no minimum age;
- Factor 88 (age + years of service), minimum of 55 years of age.

For employees leaving their employment at the age of 55 or more without meeting one of the above requirements, the pension is reduced by 3% for each year that their retirement proceeds the date on which they would have met one of the above requirements.

Proposed changes: (as of January 2013 if accepted by the National Assembly)

- ✓ **Shift from Factor 88 to Factor 90, while retaining the minimum age of 55**
- ✓ **Abolition of eligibility criterion of 35 years of service with no minimum age**
- ✓ **Increase from 3% to 4% in the annual reduction for early retirement**

That proposal would encourage members to work a few additional months or for a maximum of one year to take advantage of Factor 90 and receive a pension with no reduction. Furthermore, for retirement after 35 years of service, employees would necessarily have to reach the minimum age of 55.

Along with that, as of January 1, 2013, for those who decide to leave before they are eligible for a pension with no reduction, it would be proposed that the annual reduction applicable to early retirement is increased from 3% to 4%.

As for the various types of existing agreements pursuant to the PPMP legislation or conditions of employment, aimed at a transition from work to retirement, a transitional provision would be planned regarding compliance with agreements signed on a given date and according to terms to be determined by the government.

✓ **Rules governing pensioners' return to work**

Current situation: At the present time, the rules applicable to PPMP pensioners who want to return to work vary according to their age and the period when their years of service were accumulated (i.e. before or after 1983).

Proposed changes:

- ✓ **Standardization of the rules governing a return to work with suspension of pension proportionate to the time worked as a salaried person**
- ✓ **Retention of the possibility of contributing to the plan by having the total pension suspended**

For all PPMP pensioners who are concerned by provisions governing a return to work and who return to work as of January 1, 2013, it is proposed that the provisions be standardized and that suspension of the pension proportionate to the time work be provided for. Returns to work that are under way on that date would still be governed by the current provisions until a date stipulated in the agreement.

This measure would be equivalent to applying to all pensioners concerned the provisions currently in effect for those with no years of service before 1983. In that context, for a part-time return to work, pensioners could receive their salary, as well as a portion of their pension. In the case of a full-time return, the pension would be completely suspended.

However, it would still be possible for pensioners returning to work to elect to resume contributing to the PPMP while having the payment of the pension they would have received completely suspended.

Supplementary step: documentation of the return-to-work phenomenon in the public service, education and health and social services sectors.

At the present time, data on the return-to-work phenomenon among pensioners are fragmentary and do not make it possible to objectively analyze the scope or characteristics of the phenomenon. The objective of documenting the phenomenon would be to have a better understanding of the situation and, if required, to propose new directions in that regard.

Employers should therefore be compelled, according to terms to be determined, to report the following information when hiring a pensioner:

- ✓ the pensioner's status (salaried or contractual);
- ✓ the reasons for hiring the pensioner;
- ✓ the time elapsed between retirement and the return to work;
- ✓ the anticipated duration of the return to work.

Age limit for contribution to the plan

Current situation: In application of the tax rules provided for in Canada's *Income Tax Act* until 2006, a member cannot contribute to the PPMP beyond the age of 69.

Proposed changes:

As of January 1, 2013, members who are over 69 and still at work must continue to contribute to the PPMP until December 31 of the year of their 71st birthday.

✓ **Contribution rate and funding of the PPMP**

Current situation: The legislation governing the PPMP provides that the members' contribution rate is based on the result of the three-year actuarial valuation by the Commission administrative des régimes de retraite et d'assurances (CARRA). It is adjusted on January 1 following receipt by the Minister of the report of the independent actuary mandated by the pension committee to assess the appropriateness of the assumptions used in the actuarial valuation. In addition, under a legislative amendment adopted on November 2, 2011, the rate is also adjusted on January 1 of the following two years.

Proposed changes:

The objective of the proposed changes in this section is to stabilize the level of the members' contribution rate while ensuring that the plan is not under-funded. According to the discussions between RACAR, CERA and the SCT, the mechanism for establishing the members' contribution rate would vary depending on the years of application. According to the circumstances, it would be accompanied by compensation by the government paid into the members' fund to ensure adequate funding of the plan.

The provisions required for application of that formula would be applicable from January 1, 2012 to December 31, 2016. For the following years, the government would reserve the right to reassess the formula and, if need be, it undertakes to consult RACAR and CERA.

- ✓ **Contribution rate for the years 2012 and 2013**
- ✓ **Establishment of a contribution rate that takes into consideration future changes in the criteria for eligibility for retirement**
- ✓ **Payment of a fixed amount of compensation by the government into the members' fund**

For the years 2012 and 2013, the members' contribution rate would be based on the contribution rate required in the actuarial valuation at December 31, 2008, as recalculated to take into consideration the changes to be made in the criteria for eligibility for retirement (in accordance with section 2.1.2 of this paper), further to the parties' joint request. Given that, the required contribution rate of 13.59% would drop to 12.84%.

A percentage corresponding to the compensation that the government would undertake to pay into the members' fund would be subtracted from that new required contribution rate. For the years 2012 and 2013, the compensation would total 0.54% of the pensionable earnings exceeding 35% of the maximum pensionable earnings (MPE) according to the *Act respecting the Québec Pension Plan*.

Thus, the members' contribution rate at January 1, 2012 and 2013 would be set at 12.30%.

- ✓ **Contribution rate for the years 2014 to 2016 inclusively**
- ✓ **Establishment of a minimum/maximum contribution rate based on the normal cost**
- ✓ **Compensation by the government of the difference between the contribution rate paid by the members and the contribution rate required in the three-year actuarial valuation**

For the years 2014, 2015 and 2016, it is proposed that the members' contribution rate be based on the normal cost which will be determined in the actuarial valuation of the PPMP at December 31, 2011, available in the fall of 2013. The minimum and maximum contribution rate would correspond to the normal cost plus or minus a set percentage. It is proposed that, for the minimum rate, 1% be subtracted from the normal cost. For the maximum rate, 1.5% would be added to the normal cost.

Should the maximum rate thereby calculated be below the contribution rate required in the actuarial valuation, the government would pay directly into the employees' fund the difference between the contribution rate that will actually be paid by the members and the rate required in the actuarial valuation. The percentage thereby obtained would be applied to the pensionable earnings exceeding 35% of the MPE.

We reiterate that the modifications will be applicable only in January 2013 and if the law is accepted by the National Assembly. We will keep you posted.

Do not hesitate to call us if you have a question.
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