EXPANSION OF THE QUÉBEC PENSION PLAN

Though Canada's retirement income system was ranked eleventh among 30 countries by the 2017 Melbourne Mercer Global Pension Index, the index also revealed it could be improved by increasing household savings for middle class earners. The enhancement to the Canada Pension Plan (CPP) which will apply gradually starting in 2019, and now, the planned enhancement of the Quebec Pension Plan (QPP) introduced in *Bill n°149 : An Act to enhance the Québec Pension Plan and to amend various retirement-related legislative provisions* are expected to help increase Canada's overall score in the coming years. Bill n°149 will implement measures for Quebec-based workers that are similar to the CPP enhancement.

As we found in our recent white paper, *Bold Ideas for Mending the Long-Term Savings Gap*, bold action is needed from both governments and employers to close Canada's retirement savings gap, presently estimated at nearly $3 trillion. The enhancement of the Canada Pension Plan and the Québec Pension Plan are good first steps.

We are pleased the Québec government is proposing to enhance the QPP in the same manner as the CPP. This enhancement includes many important characteristics: it is national in scope when combined with the CPP enhancement, it is mandatory, modest, it accumulates gradually without affecting past service, it is fully funded and it provides potential contribution adjustments and potential adjustments to benefits if contributions are insufficient. At the same time, we feel that this would have been the time to reconsider other parameters of the base QPP to reduce the gap in payroll taxes with the rest of Canada.

We view this announcement as positive for employees, especially those who do not already have access to a pension plan with their employer.

Employers now have sufficient information to consider how to adapt their pension arrangements and compensation programs to this new environment. Leveraging on the work done elsewhere in Canada for the CPP, we can help our clients to develop their strategy, including:

- Whether and how pension plan benefits should be integrated with the enhanced QPP benefits.
- Whether and how DB or DC pension plan contributions should be reduced as a result of the increased QPP contributions.
- Whether increased QPP contributions will be offset by changes to other compensation elements.

Reducing benefits and contributions in existing pension plans as a result of the QPP enhancement will be an opportunity for plan sponsors to transfer some pension responsibilities to the government plans and therefore reduce risks in the pension plans they sponsor.

With QPP contribution increases beginning in 2019, these issues should be addressed soon, allowing sufficient time for decisions to be made and communication of any change, taking into account any collective bargaining issues.

BACKGROUND

The changes to the Canada Pension Plan became law in December 2016. At the same time, the Quebec government published its consultation paper on the future of the QPP. A parliamentary commission received comments in January 2017. Three options were under review:

1. First option: status quo, meaning the QPP would not have been expanded.

2. Second option: more modest expansion than the CPP, excluding the first $27,500 in earnings (in 2016 dollars) for purposes of the expansion.

3. Third option: adopting the same enhancement in the QPP as in the CPP.

The government is proceeding with the third option.

ENHANCEMENT TO THE QUÉBEC PENSION PLAN

The QPP enhancement included in Bill n°149 does not modify benefits accumulated up to December 31, 2018. Starting January 1, 2019, the program is modified for future accruals only. The increases in benefit and contribution levels, as well as the phase-in period, under the QPP enhancement, are the same as under the CPP enhancement.

Benefits
The existing QPP (base QPP) benefit is founded on 25% of pensionable earnings, up to the Year's Maximum Pensionable Earnings (YMPE). The new additional QPP benefits will be based on two rates, as follows:

- 8.33% multiplied by covered earnings up to the YMPE (gradual implementation from 2019 to 2023).
- 33.33% multiplied by covered earnings between the YMPE and a new earnings limit called the year's additional maximum pensionable earnings (or, YAMPE). The YAMPE will be equal to 107% of the YMPE in 2024 and 114% of the YMPE in subsequent years.

The new additional QPP benefits will be built-up gradually over a 40-year career, ensuring intergenerational equity.

Contributions
To provide for the new additional QPP benefits, the required contributions will gradually increase starting in 2019 to reach 1% of covered earnings each by employees and employers by 2023, or 2% for self-employed workers. For covered earnings between the current YMPE and the new YAMPE, new contributions starting in 2024 will amount to 4% of covered earnings each by employees and employers, or 8% for self-employed workers. These new contributions are in addition to the existing QPP contributions of 5.4% each by employees and employers, or 10.8% for self-employed workers.

Funding mechanism
Bill n°149 provides the mechanism by which contributions pertaining to the base QPP and QPP enhancement will be adjusted from time to time and stipulates that all future benefit improvements would need to be funded by an increase in contributions. It also provides that benefits under the QPP enhancement could be (but not necessarily) amended if contributions are insufficient.

Separate accounting will be made for the benefits and contributions pertaining to the enhancement. Funds pertaining to the enhancement would also be invested by the Caisse de dépôt et placement du Québec, but separately from the funds pertaining to the base QPP and according to a separate investment policy.

OTHER CHANGES TO THE QUÉBEC *SUPPLEMENTAL PENSION PLANS ACT*

Bill n°149 also amends the *Supplemental Pension Plans Act* to allow pension plans to set different priorities for the appropriation of surplus assets in an on-going plan. It also provides that contributions made to reduce a letter of credit or as special annuity purchase payments in accordance with an annuity purchase policy will be recognized to establish the level of surplus assets used.

It also includes administrative measures, notably allowing the annual notice relating to the solvency financial position of a plan to be sent to Retraite Québec up to September 30 (rather than April 30) and providing that for purposes of payment of benefits, the degree of solvency is that applicable on the date of the valuation of the benefits.

Contact your Mercer consultant today to discuss what this means for your organization.

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