



HARMONIZATION OF THE QPP WITH THE CANADA PENSION PLAN (CPP) AND OTHER AMENDMENTS TO RETIREMENT-RELATED LEGISLATION

On November 2, 2017, Québec's Minister of Finance, Carlos Leitão, introduced Bill 149: *An Act to enhance the Québec Pension Plan and to amend various retirement-related legislative provisions* in the National Assembly. The main proposal of the Bill is to implement, as of January 2019, an enhancement to the Québec Pension Plan (QPP) similar to that of the Canada Pension Plan (CPP).

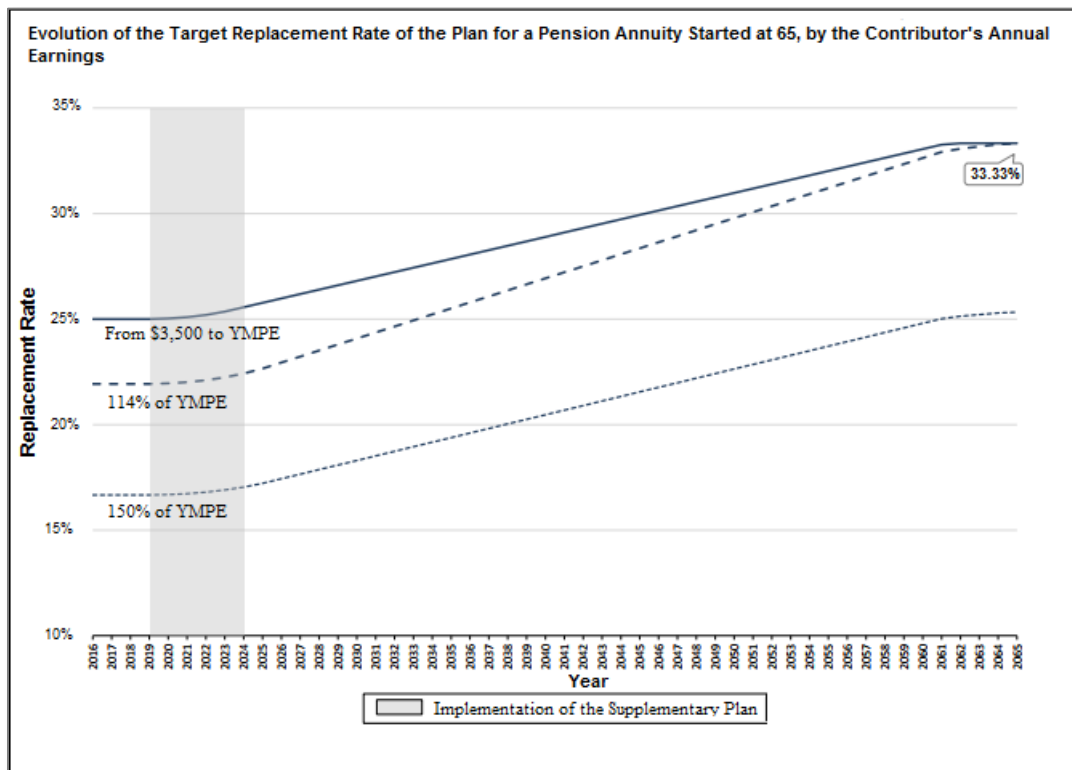
This news release outlines the government's position following the January 2017 public consultation on the Québec Pension Plan.

In brief, the QPP enhancement scenario put forward by the government includes the following measures:

- Implementation of an additional component to the Québec Pension Plan. As such, the QPP would now be made up of two parts: the basic plan, that is, the plan established in 1966, and the "new" supplemental plan, whose first component would begin in 2019. However, although this has not been very publicized very well, in the event of a significant rise in costs, the pensions paid to future retirees of the new supplemental plan could be revised downward, giving this plan the semblance of a target benefit plan;
- Increase of the retirement pension, since the income replacement rate obtained from the public plan (two components) would rise from 25% to 33.33%;
- Increase of the disability pension and the survivor's pension amounts thanks to the supplemental plan;
- Gradual increase of contributions over seven years, from 2019 to 2025;
- Increase of the Maximum pensionable earnings (MPE), i.e. the maximum earnings a worker can contribute to the QPP, by 14%;
- Separate accounting for contributions to the new supplemental plan and its benefits. The supplemental plan's funds would be managed by the *Caisse de dépôt et placement du Québec*, separately from those of the basic plan.

The introduction of this "new" supplemental plan has resulted in a significant increase in the income replacement rate offered by the Québec Pension Plan. The income replacement rate is the retirement pension ratio based on employment earnings prior to retirement. The graph on the next page shows the effect of a gradual vesting of benefits: as contributors accumulate years of paying into the "new" supplemental plan, their income replacement rate will increase. For contributors whose average employment earnings range from \$3,500 to the MPE, the income replacement rate will rise from 25% in 2019 to 33.33% in 2065. The graph also shows the effect of the introduction of a higher MPE starting in 2024 (what might be called the second component of the "new" supplemental plan). For contributors whose average employment earnings are equal to 114 % of the MPE, the replacement rate increases from 22% in 2024 to 33.33% in 2065.

Note that the income replacement rates indicated in the graph below apply to the average MPE over the last five years. These are the rates that are applicable for a pension starting at age 65, the age at which the retirement benefit is paid without reductions.



Source: Actuarial report updating Actuarial Valuation of the Québec Pension Plan as at 31 Dec. 2015 – Retraite Québec – September 2017

Furthermore, Bill 149 also includes amendments to Québec's *Supplemental Pension Plans Act*, some of which relate particularly to the funding of defined benefit pension plans. Note that we are currently assessing the impacts of Bill 149 in more detail. The Bill can be found on the National Assembly of Québec website: <http://www.assnat.qc.ca/en/travaux-parlementaires/projets-loi/projet-loi-149-41-1.html>

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