Heenan Blaikie LLP

Pensions & Benefits

APRIL 5, 2011

Pension *Pulse*

PENSIONS & BENEFITS E-BLAST

Quebec Government Announces Pension Changes in 2011-2012 Budget

The Quebec government tabled its 2011-2012 Budget on March 17, 2011. Alongside the 2011-2012 Budget, the Quebec government released a paper entitled "A Stronger Retirement Income System: Meeting the Expectations of Quebecers of Every Generation." The paper highlights a number of challenges to maintaining the retirement income of Quebec residents.

The recent recession, as well as changes to the population demographics are placing increasing pressure on the financial health of the Quebec Pension Plan (QPP). The projected increase in the number of retirees, the decline of the working-age population, and longer life expectancies are creating increasing demands on QPP benefit payments, while decreasing contributions.

To ensure the long-term stability of the QPP and combat the problem of insufficient retirement savings, the 2011-2012 Budget and accompanying paper propose the following measures :

- the creation of voluntary retirement savings plans (VRSPs);
- increasing contributions to the QPP;
- implementation of an automatic contribution rate adjustment mechanism for the QPP; and
- changing the adjustments applied to early or late retirement under the QPP.

Creation of Voluntary Retirement Savings Plans

As discussed in previous editions of *Pension Pulse*, the federal and provincial finance ministers agreed to a framework for the introduction of a new vehicle called a Pooled Registered Pension Plan (PRPP). PRPPs are intended to provide access to pension plans to a wider cross-section of the population such as self-employed workers and small business employees.

A PRPP will be very similar to a defined contribution pension plan, but administered by financial institutions on a large-scale pooled basis. This will enable smaller employers and the self-employed to participate in a pension plan without having to deal with the administrative and regulatory complexities of registering a stand-alone pension plan. See our *Pension Pulses* dated February 28, 2011 and December 22, 2010 for more details on PRPPs.

The Quebec government is moving forward with the proposed PRPP framework through the announced creation of VRSPs. VRSPs are intended to be accessible to everyone over the age of 18 and will rely on economies of scale to reduce management expenses. Financial institutions acting as VRSP providers and administrators will offer default investment options and contribution rates to cultivate a critical mass of assets. This also simplifies the process for participants, and minimizes administrative and management duties for employers. Participants may adapt the default provisions of the VRSP to their needs.

The VRSP will encourage retirement savings, given that employers that do not offer a pension plan will be required to enrol their employees in VRSPs. While employers will not be required to contribute to VRSPs, employers will be required to deduct at source employee contributions to VRSPs. Employees may then opt out of a VRSP, but it remains the default option. Further, employers that do contribute to the VRSP, may require their employees to participate in a VRSP, provided that an agreement is reached with the employees. Employer contributions will be exempt from payroll taxes.

The 2011-2012 Budget specified that VRSPs will be accessible to the self-employed and to "savers" (a term undefined by the Budget). However, the Budget remained silent as to how the self-employed and savers would participate in a VRSP. As identified in our *Pension Pulse* dated February 28, 2011, there are a number of issues that need to be resolved prior to the implementation of any PRPP or VRSP. These issues include the eligibility requirements to act as an administrator, the duties (including possible fiduciary duties) of administrators and employers, regulatory oversight, choice of investments, and harmonization rules across provinces.

The federal government's budget, released March 22, 2011, affirms its commitment to implementing PRPPs. However, the federal budget did not release any further details or announce the necessary amendments to federal legislation to implement PRPPs such as VRSPs. For example, the federal *Income Tax Act* and the federal *Pension Benefits Standards Act* will require amendments, as will the *Quebec Taxation Act* and the *Quebec Supplemental Pension Plans Act* in order to implement the VRSP in Quebec.

Increasing Contributions to the QPP

The projected demographics of the Quebec population indicate that the current contribution rate to the QPP will be much lower than the rate needed to secure the long term financial stability of the QPP (the "steady-state contribution rate"). An actuarial report, dated December 31, 2009, has determined that the steady-state employer-employee contribution rate is 11.02%, while the current contribution rate is only 9.9%.

Accordingly, the Quebec government is phasing in increases to the contribution rate over six years. The increases will be made in increments of 0.15 percentage point per year until the contribution rate reaches 10.80%. The increases will go into effect on January 1st of each year from January 1, 2012 until January 1, 2017. The steady-state contribution rate will be reassessed every three years to determine whether the increases continue to be necessary, or further action is required.

The proposed contribution rate increases will create a disparity between the contribution rates under the Canada Pension Plan (CPP) and the QPP. It remains to be seen how the federal and Quebec governments will address the disparity.

Automatic Contribution Rate Adjustment Mechanism

Following the contribution adjustments planned for the next six years, an automatic contribution rate adjustment will occur following the publication of the tri-annual steady-state contribution rate assessment.

Should the assessment reveal that the contribution rate is below the steady-state contribution rate by more than 0.1 percentage point, the contribution rate will be increased automatically by 0.1 percentage point per year. The increases will continue until the contribution rate matches the steady state contribution rate. All increases will be in effect as of the following January 1st, and are subject to suspension by the government to address the issue with alternate measures.

Changes to Adjustments to QPP for Early and Late Retirement

Quebec residents can choose to begin receiving QPP benefits at age 60 or opt to wait until age 70. Benefits are increased or decreased on an actuarial basis for each month between the 65th birthday and the age of the pensioner at first benefit payment. Currently QPP pensions are adjusted as follows:

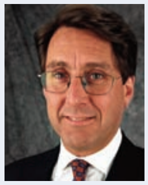
- benefits are raised by 0.5% per month, when applied for after age 65; and
- benefits are reduced by 0.5% per month, when applied for before age 65.

For pensions applied for after age 65, the monthly increase will rise from 0.5% to 0.7% as of January 1, 2013. In addition, for pensions applied for prior to the age of 65, the monthly reduction of pension benefits can increase from 0.5% to up to 0.6%. These adjustments will be phased in over three years beginning January 1, 2014. The changes to the percentage adjustments are the same as those being made to the CPP.

Going Forward

The Minister of Finance is expected to table an omnibus bill in the National Assembly to implement the changes to the QPP announced in the 2011-2012 Budget. Further proposals to adjust the QPP are expected in the near future. The Minister of Employment and Social Solidarity will likely announce increases to the amount of the orphan pension and the elimination of the requirement for workers to stop working in order to be eligible for QPP at age 60.

Please contact Robert Dupont or any member of our National Pensions and Benefits team for more information on these proposals. ■



Robert Dupont is a partner in Heenan Blaikie's Montreal office. He has over 30 years of experience in Labour and Employment Law.

His practice encompasses all aspects of labour, employment, human rights and administrative law. He has extensive experience in labour relations, including privacy, pay equity and pension plan matters. He also advises a large number of companies on issues related to transborder data flows of personal employee information, collective bargaining and corporate restructuring.

The National Pensions & Benefits Group Includes:

Montreal		
Robert Bonhomme	514 846.2260	rbonhomme@heenan.ca
Robert Dupont	514 846.2314	rdupont@heenan.ca
Troy McEachren	514 846.2319	tmceachren@heenan.ca
Frédéric Massé	514 846.2386	fmasse@heenan.ca
Toronto		
Mark Newton	416 643.6855	mnewton@heenan.ca
John D.R. Craig	416 360.3527	jcraig@heenan.ca
S. Jodi Gallagher Healy	416 360.3555	jgallagher@heenan.ca
Peter L. Clark	416 360.3543	pclark@heenan.ca
Vancouver		
Andrea Zwack	604 891.1161	azwack@heenan.ca
Peter A. Gall	604 891.1152	pgall@heenan.ca
Jillian Frank	604 891.1160	jfrank@heenan.ca
Calgary		
Robb D. Beeman	403 261.3452	rbeeman@heenan.ca
Ottawa		
Sébastien Lorquet	613 236.1327	slorquet@heenan.ca
Judith Parisien	613 236.4673	jparisien@heenan.ca