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Mme Mériem Lahouiou
Secrétaire de la commission parlementaire
Commission des finances publiques
Édifice Pamphile-Le May
1035, rue des Parlementaires
3e étage
Québec (Québec) G1A 1A3
cfp@assnat.qc.ca

c.c. Jean-François Therrien, Chief Actuary of the Québec Pension Plan, Retraite Québec

Subject: Public consultation on the Québec Pension Plan – *A Plan Adapted to the Challenges of the 21st Century*

The Canadian Institute of Actuaries (CIA) is pleased to respond to this consultation. We are providing comments that are within the purview of the actuarial profession in response to the summary questions of the above-mentioned public consultation.

Actuaries are very interested in Canada's public pension plans and any changes to them. The CIA released a position statement in 2019 entitled [Retire Later for Greater Benefits: Updating today's retirement programs for tomorrow's retirement realities](#). We invite you to consult this statement, which contains recommendations on the age of eligibility for the Québec Pension Plan (QPP), as well as the [graphic summary](#) on the age of eligibility for Canada's retirement programs.

We want to recognize the quality of the QPP's governance, in particular the regular consultations with stakeholders and experts to improve the performance of the QPP. These consultations are accompanied by a rigorous analysis of the issues with proposals for solutions. In addition, we would like to recognize the quality of the QPP actuarial valuation and the financial impacts of the proposals, which allows stakeholders and experts to count on credible figures.

Consultation questions

The CIA's responses to the summary questions are presented below.

To ensure better financial security for future retirees (section 3), are you in favour of:

– gradually postponing the minimum age of eligibility for the QPP retirement pension from 60 to 62 or 65 (section 3.2)?

The CIA's 2019 public statement proposed to raise the minimum age of eligibility for retirement from 60 to 62 over a seven-year period. We therefore support the proposed solution of raising the minimum age of eligibility. The rationale in our abovementioned public statement is similar to that in the consultation paper, and includes an increase in the labour force participation of older people, an increase in life expectancy and a growing need for labour.

It should be noted that this solution is not intended to reduce the cost of the plan or to reduce the value of benefits. It continues to leave it to Quebecers to choose when the retirement pension begins. It is not linked to the decision to cease working.

We would like to point out that our public statement expressed our concerns about the many people who do not optimize their retirement income as a result of choosing to start the QPP pension at age 60. We find these same concerns in the consultation paper. We believe that many are using QPP benefits as an income supplement while continuing to work, rather than maximizing their retirement income by deferring payment of these benefits. These Quebecers may not realize the significant benefits of deferring the QPP pension to longevity, inflation and return risks.

We are encouraged to see a gradual improvement in the average age at which retirement pensions are claimed in the most recent report on the actuarial valuation of the QPP. Nevertheless, we believe that more needs to be done to continue to increase this average age. In particular, sending personalized statements to those who are close to retirement that illustrate the increase in the pension if it is deferred. Although other means can be considered, such as communication campaigns to explain the benefits of postponing the age at which a retirement pension is claimed, postponing the minimum age of eligibility is an effective tool.

There should be an automatic review, every five to 10 years, of this minimum age of eligibility to allow, for example, future adjustments to be considered based on subsequent changes in life expectancy, the needs of Quebecers and trends in the participation in work of older people. We believe that an automatic review is preferable to the second track, which proposes a minimum age of 65 over a long period of time.

We recognize that some Quebecers will be negatively affected if they cannot choose a pension at age 60, in particular those who have jobs that require significant physical effort, as well as those who suffer from physical or mental disabilities and who cannot continue working after age 60, and who cannot compensate for the deferral of the QPP pension to age 62. It is not clear to the CIA how many Quebecers are in this situation and whether this number could decrease or increase over time. We believe that other measures, particularly outside the QPP, can be put in place to compensate for the deferral. We suggest that Retraite Québec propose the details of a new program that would aim to reduce the negative impact of raising the minimum age of eligibility for those who must receive it to 60 and project the future number of those who cannot wait until age 62.

– gradually increasing the current limit to start receiving a QPP retirement pension from age 70 to age 72 or age 75 (section 3.2)?

We recommend that the current limit be increased from 70 to 75 years by January 1, 2024, at the latest. This change will be cost neutral, and we see no reason to introduce it gradually. In

addition, this amendment is not dependent on the amendment that raises the minimum age of eligibility for the retirement pension.

This change is not intended to affect the postponement of retirement ages, although this could be an indirect consequence in some cases, as it will provide future retirees with greater certainty about their financial security. Rather, its main objective is to enable workers to plan for higher, stable and predictable retirement incomes, even if they do not have a defined benefit plan with their employer.

This change will provide more flexibility for retirees. Thus, a person who decides to delay the start of their pension, either because they work part time or because they want to first use their RRSP and other personal savings, or because they have benefits offered by a private pension plan, could more than double their QPP pension between age 65 and 75 and thus better manage their longevity risk, or the risk of surviving one's savings.

This change, if applicable now, will offer the opportunity to greatly improve the hundreds of thousands of workers currently on the verge of retirement. They already face the daunting challenges of decumulation and investment of the large sums they have accumulated over the course of their careers.

We therefore welcome the vast possibilities that this amendment will offer, especially if it is eventually combined with increased flexibility for the unlocking of personal savings and a similar flexibility of the Old Age Security (OAS) pension. (The federal government, in a similar spirit, has just improved the OAS by 10% at age 75 for all.) It is clear that the possibility of deferring one's pension until age 75 concentrates the need for personal savings at the beginning of the retirement period, in addition to reducing this need and making it more predictable.

– making retirement pension beneficiaries make contributions to the QPP optional as of December 31 of the year of their 65th birthday (section 3.3.1)?

We are in favour of such a measure in the basic plan because it should encourage Quebecers aged 65 or over to pursue their active careers beyond age 65 by allowing them to increase disposable work income. In addition, such a change would strengthen alignment with the Canada Pension Plan (CPP). We encourage the Government of Quebec to consider, in collaboration with the CPP, the possibility of applying this measure for the basic plan to those who are not beneficiaries, which would encourage workers to continue working after age 65. In our view, such a change should not be made in the additional regime.

– amending the rules for calculating the retirement pension in order to prevent the work earnings of a person who applies for his pension after age 65 from reducing the average earnings used to calculate his pension (section 3.3.2)?

We support changes to the rules for calculating the retirement pension payable in the base plan, with respect to earnings after age 65, to make it identical to the CPP for those who apply for their pension after age 65.

In addition, we encourage the Government of Quebec to work with CPP officials to analyze the possibility of extending this measure concerning the earnings of the base plan to workers aged

60 or over (or 62 if the age of eligibility for the pension is changed) and to conduct a study of the costs of such a measure on the base plan. Before implementing such a change, the government should communicate the costs of implementing such a measure to the public and consult the various stakeholders who could be affected by it in order to validate its social acceptability. In the event of such a change to the earnings formula, workers should still be required to contribute to the plan until age 65 (or the age of pension start if the change to contributions after age 65 is not adopted).

In our opinion, a change to the rules for calculating the retirement pension in the base plan to prevent a person who applies for their pension after age 60 (or age 62 if the age of eligibility is raised) from reducing their average earnings used to calculate the pension is the measure that would have the most significant effect in the short term to encourage individuals to delay their retirement from the QPP. Indeed, starting at age 60, many people have an interest in continuing to work but want to slow down their pace of work, from five days a week to three or four days. The current rules, which have the effect of reducing the average pensionable earnings of the worker, encourage Quebecers to request immediate payment of their pension rather than defer it. Such a change should affect the averaging method as soon as workers become eligible for payment of their QPP pension, and not just as of age 65.

In addition, we believe that the typical career model is evolving and that in the future, older workers will have a more flexible and variable work schedule beyond age 60 or 65 and that adjusting to the calculation of the average is a relatively easy way to encourage Quebecers to pursue a longer active career.

Finally, we do not believe that changes should be made to the additional plan in this regard, since the accumulation of benefits is funded over the course of the worker's career.

In order to improve the financial security of seniors, while ensuring financial flexibility for the Plan, are you in favour of increasing the adjustment factors for a pension claimed before age 65 (section 3.4)?

In our April 2019 public statement, we proposed that governments continue to regularly review the early and deferred retirement adjustment factors of the CPP/QPP and OAS to ensure that they do not encourage early retirement or discourage delayed retirement.

The consultation paper addresses pension adjustment factors in two ways.

- i. By referring to the possible increase in the maximum age of eligibility to age 75, the consultation paper presents a potential increase of 30% in the pension at age 75 compared to that at age 70. We note that the pension is currently increased by 42% at age 70 compared to the pension at age 65. The bonus for the deferral of the pension after age 70 seems to us insufficient to encourage contributors to postpone the start of their pension after age 70. From an actuarial point of view, the bonus should be at least equal to 100% at age 75 compared to the pension at age 65, i.e., the pension could be doubled. The adjustment factors are already different between ages 60 and 65 and between ages 65 and 70. They should also be different between the ages of 70 and 75.

- ii. The consultation paper also mentions the possibility of increasing the penalties for early commencement of the pension. From an actuarial point of view, it appears that the reduction for early commencement of the pension is already sufficient. An increase in the adjustment factors for early retirement should therefore not apply at this time, according to the CIA.

To better account for events that affect the careers of certain people (section 4), are you in favour of:

– adding, in both plans, earnings credits to recognize periods of reduced income when a person has to care for a dependent child or in the event of disability?

We support efforts to ensure that periods of income decline are recognized in these situations and that would harmonize the provisions of both plans with those of the CPP. However, we believe that the costs of this measure should be analyzed and disclosed.

– adding, in both schemes, a measure to support caregivers who need to significantly reduce their working hours?

We support efforts to amend the QPP to recognize the efforts of citizens who act as informal caregivers and to ensure that they are not penalized in retirement. We are encouraged by the work mentioned in the consultation paper regarding your participation in an interdepartmental committee to arrive at a holistic solution that would take into account the different programs available for informal caregivers. ***However, we are very concerned about the annual management of this measure and the costs. We suggest that prior to the approval of such a measure, management details and costs be disclosed.***

Other comments

We would also like to address the topic of adjustment mechanisms in this consultation. We support an automatic adjustment mechanism for the base plan if there is a fluctuation in break-even costs in the future. We note that such provisions already exist in the CPP and that they have also been introduced in the additional QPP plan, albeit according to a mechanism that has yet to be defined in the latter case. We believe that retirees should also bear some of the risk of the fluctuations in the financial health of the base plan. Therefore, in order to rebalance the base plan following an increase in the long-term break-even cost, any increase in contributions applicable to contributors should be accompanied by a reduction in indexation applicable to beneficiaries. Conversely, a decrease in the long-term break-even cost could be used to reduce contribution rates or restore past indexation.

The CIA appreciates the opportunity to provide feedback on these issues, and we would welcome further discussion with you throughout this process.

If you have any questions, please contact Chris Fievoli, FCIA, Actuary, Communications and Public Affairs, at 613-236-8196 ext. 119 or chris.fievoli@cia-ica.ca.

Sincerely,

Hélène Pouliot, FCIA
President, Canadian Institute of Actuaries



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