THINGS HAVE TO CHANGE NOW!

RETIREMENT ISSUE
INDEXATION

CSQ
Centrale des syndicats du Québec

What does this mean?

When one has retired, the pension can be adjusted upwards to follow the cost of living, either partially or completely. Raising the pension during retirement is called "indexing."

The loss of purchasing power is increasingly felt in the years following retirement, particularly when the indexation is not substantial or non-existent.

What is the RREGOP[1] indexation?

At the RREGOP, an automatic indexation is applied on January 1 of each year. This indexation is established based on service accumulation according to three periods:

- Period 1: Originally, the retirement pension was indexed every year according to the increase in the cost of living (according to the rate of increase of the pension index[2]).
- Period 2: In 1982, the government unilaterally changed the indexation formula by removing the first 3% of inflation (pension index minus 3%) for years contributed as of July 1, 1982.
- Period 3: This formula was then improved for years of contribution as of January 1, 2000, through the introduction of a minimum of 50% indexation (pension index, minus 3% or at least 50% of the rate of increase of the pension index).

Therefore, a person who retired in 2018 with 35 years of service with the RREGOP, would have their pension rise by ¼ of the increase in the cost of living, assuming an inflation rate below 3%, and;

- 17.5 years accumulated in period 2 (between July 1, 1982 and December 31, 1999)
- the other half in period 3 (beginning in 2000)

Conversely, the indexation of the RREGOP pension of a person who started working in the 2000s, and who will retire in fifteen or more years, will follow half the cost of living because all these years will be accumulated in period 3.

It should be noted that the QPP[3] pension is fully indexed to the cost of living.

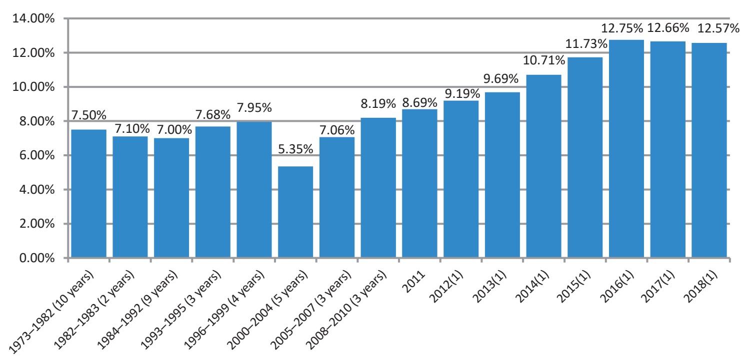
Is indexation expensive?

Yes, indexing a retirement pension comes at a cost. This is why few defined benefit plans offer a pension that is indexed to the full cost of living.

As demonstrated, the indexation is substantially less generous for the years accumulated from July 1, 1982 to December 31, 1999. In contrast, other factors may be taken into account in the analysis.

A significant increase in the contribution rate

The RREGOP contribution rate has substantially increased since 2008. Figure 1 shows the RREGOP contribution rate since its introduction.



(1) Years 2012 to 2018: Contribution rate applicable to the salary that exceeds the maximum pensionable earnings (MPE) by 35%, for comparison purposes (same base)

Fig. 1 - *RREGOP contribution rate*

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[1] Québec Pension Plan.
[2] In French, this is called the Taux d'augmentation de l'indice des rentes (TAIR), it is the index approaching the Consumer Price Index (CPI).
[3] Régime de rentes du Québec.

Current retirees and active participants who will retire shortly have benefitted from substantially lower contribution rates in comparison to the future generations of retirees.

It should be noted that the use of a surplus enabled a reduction in the contribution rate (partial contribution holiday) from 2000 to 2004 (5 years) at a rate of 5.35%.

Two key factors explain the increase in contribution rate:

- Actuarial assumptions:
  - The long-term rate of return has been revised downward over the years. The return outlook is not what it used to be, which increases the plan's liabilities and the cost of earnings.
  - Life expectancy is revised upward (people are living longer), which also increases costs.
- The deficit (actuarial evaluation as of December 31, 2011 to December 31, 2014) that is paid for by the workers and is reflected by an increase in contribution rate.

Finally, it should be noted that the contribution rate between July 1, 1982 and December 31, 1999 (17.5 years) reflected the less generous indexation.

Non-funded temporary measures

From 1980 to 1990, many times during negotiations, precedence was given to some temporary measures (for retirements between certain specific dates). More beneficial retirement age and penalty criteria were granted. The cost of these measures was paid through RREGOP surpluses, not funded by contributions.

Voluntary departure program

In 1997, many people (more than 30,000) benefitted from the voluntary departure program to take advantage of the generous retirement age and penalty measures. These measures were funded through RREGOP surpluses, not by contributions.

Pension credits buyback

Many people have benefited from the opportunity of being credited the non-contributory RREGOP years, prior to the employer's membership, at an interesting cost (buyback). Over the years, revaluations (pension increase) of these pension credits have been made directly in the RREGOP fund.

Benefits revised downward

During recent negotiations, some benefits were revised downward, which will affect future retirees:

- Retirement age delayed to 61 years for those with less RREGOP seniority (retirement as of July 1, 2019)
- Actuarial penalty that will go from 4% per year to 6% per year (retirement as of July 1, 2020)

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