Quebec Provincial Association of Teachers

INFO-NEGO

Association provinciale des enseignantes et enseignants du Québec

Negotiations and the RREGOP Pension Plan

Fact vs. Fiction

The government's contractual deposit of December 2014 demands major changes to the benefits and funding of the RREGOP, all to the detriment of pension plan members, including QPAT teachers. In light of this, it is important to understand the government's proposal and compare it to the actual financial situation of the pension plan.

What is the government proposing?

For anyone retiring as of January 2017, the government wants to:

- require public sector workers to work until age 62 instead of age 60 to be eligible for a non-reduced pension (no change proposed to the 35 years of service);
- increase the permanent reduction applied to a pension from 4% per year to 7.2% per year for each year the early pension is taken before age 62 or before 35 years of service have been completed;
- use the best eight (8) years instead of the best five (5) years to calculate the pension.

In addition, the government wants to put in place mechanisms that would further increase the retirement age based on life expectancy, review the indexation formula and increase contributions for some types of absences.

What does this mean?

It means that the government wants to reduce the pensions of any teacher who retires as of January 2017 compared to the current level of benefits. Here are two examples for a teacher retiring as of June 2017 under the current rules as compared to what the government is proposing[1]:

Example 1:

Teacher with 35 years of contributions

Current rules	Proposed rules
$52,780	$51,660
Difference	$1,020 loss per year

Impact due to eight year average instead of five year average

Example 2:

Teacher who retires on 58th birthday with 30 years of contributions

Current rules	Proposed rules
$41,620	$31,520
Difference	$10,100 loss per year

Impact due to eight year average as well as four years of reduction instead of two and 7.2% reduction instead of 4% reduction per year

All teachers would be negatively affected, especially those who would not have 35 years of service or would not be 62 years old.

Should a teacher rush to retire to avoid the measures?

No. First, this is a proposal from the government, not a final agreement. We will fight against these proposals.

Second, these measures, even if they were implemented as presented by the government, would only take effect as of January 2017. There is no need to rush to any decision. When matters are clearer, QPAT will provide timely information to teachers so they can decide what their best option is.

Any teacher who was planning to retire prior to 2017 before they heard of the government deposit can continue with their plans; nothing has changed.

If a teacher starts a progressive retirement agreement prior to January 2017, will that protect the teacher's pension against the proposed changes for a retirement after that date?

No, because there are no transitional measures indicated in the government proposal. The pension calculation would depend on the actual date of retirement. In fact, rushing into a progressive retirement agreement only to avoid the application of apprehended changes could be damaging financially in certain circumstances if the changes were to come to pass.

So why does the government want to do this?

The government has stated that it wants to ensure the health of the plan for the long term and that it is worried about the cost of pension contributions for its workers. However, these are false arguments. It is important to demystify some concepts and misconceptions regarding the pension plan and its financial health so that QPAT members understand why the government is wrong.

How is the RREGOP funded?

The responsibility for paying for the RREGOP's benefits is shared equally (50/50) between the employees and the government with payment coming from two different accounts.

The employees' account is generated by the contributions made by public sector employees, such as QPAT members, and the growth of the investments made with these contributions. Half of pension benefits are paid from this account.

The government's account has money that is deposited by the government and invested. The other half of pension benefits are paid from this account.

What is the financial situation of the employees' account?

The financial situation is very good. The most recent actuarial update of the employees' account shows that there were assets of $50.6 billion and liabilities of $51.4 billion. This means that the rate of capitalization, in other words the value of the account (assets) compared to what has to be paid over time (liabilities), was 98.4% at the end of 2014. There is a small actuarial deficit of $800 million.[2] For all intents and purposes, the employees' account is fully capitalized, in other words fully funded for what it has to pay out over time.

Will that small deficit be a problem?

No. First, it is important to understand that this money is not needed all at once: liabilities are not a debt, but money that is owed over a very long horizon into the future, some of it as far away as 70 years from now. It will not be fully paid out this month, this year or even this decade. There is time to take care of it.

Second, the trend is positive. The last full actuarial evaluation of the RREGOP plan estimated that on December 31, 2011, there was an actuarial deficit of $2.65 billion and a capitalization rate of 94%.[3] So, from December 2011 to December 2014, the capitalization rate increased from 94% to 98.4% and the deficit shrank from $2.65 billion to $800 million.

What are the reasons for this deficit in the first place?

There are three reasons:

1. The lingering effects from 2008 when financial markets were hammered by the effects of the US sub-prime mortgage crash;
2. The actuaries are now using a lower long-term average growth rate of 6.25% instead of the 6.5% they had used before;
3. People are living longer and collecting pensions longer.

How did the actuarial deficit shrink and what has to be done to fully eliminate it?

The actuarial evaluation at the end of 2011 gave the new contribution rates necessary to ensure the elimination of the actuarial deficit. These are the rates:

- 2014: 9.84% of annual income above $15,225
- 2015: 10.50% of annual income above $ 14,472
- 2016: 11.12% of annual income above 25% of the Quebec Pension Plan's maximum pensionable earnings (not known, likely less than $14,000)

The rates have increased, but as we can see from the 2014 update, the deficit has been virtually eliminated; the new contribution rates are doing the job.

So the RREGOP has become more expensive?

Yes, however it is still considerably less expensive than other teacher pension plans in Canada. Consider the following table for a teacher in each of the four largest provinces who earns $70,000 per year[4]:

Province	Quebec (2015)	Ontario (2015)	Alberta (2015)	British Columbia (2013)
Total contributions	$5,830	$8,312	$8,812	$9,033
Percentage of salary	8.3%	11.9%	12.6%	12.9%

In addition, once the actuarial deficit is accounted for, the contribution rate should stabilize and may even drop.

So our account is in good shape and well financed. What is the condition of the government's account?

The government's primary account, called the *Fonds d'amortissement des régimes de retraite* (FARR), had about 60% of the funds needed to pay for its share of acquired pensions across the public sector in 2012-2013. In conjunction with its other pension funds, the government had about 65% of all the funds needed for the entire public sector.[5] These percentages have been climbing steadily over time.

Why is the government's account that much smaller?

The FARR was only established in the early 1990's. Prior to that, the government had simply paid out its share of pension benefits from general revenues. It chose not to save and invest any money for the first 20 years, contrary to the employees' account.

However, while this level of financing is far lower than that of the employees' account, previous governments have committed to improving this to 70% by 2020.[6] As with the employees' account, these are long-term liabilities, not amounts that must be paid at once. Also, as a proportion of GDP, the size of the government's unfunded pension liabilities has decreased from 21.8% in 1997-1998 to 8.6% in 2011-2012.[7] This means that it has become easier over time for the government to manage this liability, so the overall trend is already going in the right direction.

Conclusion

Collectively, we must understand that the government is attacking our pension plan which would lead to lower pensions for all teachers who retire as of 2017. On an individual basis, teachers should not rush into retirement decisions based on the government's proposals; they are not final outcomes and a hasty decision could have a negative financial impact.

The government has asserted that steps need to be taken to ensure the long-term viability of the plan. However, the employees' account is fully financed and the government's account has been moving steadily and substantially in that direction. Consequently, given the situation and the trends, the plan's long-term viability is not in doubt.

The government has also stated that its employees are paying too much in contributions. However, when compared to the majority of teachers in Canada at the same income level, teachers in Quebec are actually paying considerably less on an annual basis. In addition, making teachers work longer for a lower pension does not save us money; it costs us money in the future. It is a disingenuous argument on the government's part.

Notes and References

1 These examples are approximations for illustrative purposes only. Actual amounts will vary from individual to individual. The five year average for June 2017 was estimated as $75,400 whereas the eight year average was estimated at $73,800.

2 CARRA, *Mise à jour au 31 décembre 2014 de l'évaluation actuarielle du régime de retraite des employés du gouvernement et des organismes publics au 13 décembre 2011*, April 2015, page 7. The entire update is available at http://www.carra.gouv.qc.ca/pdf/ev_ac_rregop_2011_maj_dec_2014_rapport.pdf

3 CARRA, *Évaluation actuarielle du régime de retraite des employés du gouvernement et des organismes publics au 13 décembre 2011*, October 2013, page i. The entire report is available at http://www.carra.gouv.qc.ca/pdf/ev_ac_rregop_2011.pdf

4 The calculations in this table are based on the information provided on the websites of the relevant pension plans or teachers' federations.

5 Ministère des Finances du Québec, *États financiers consolidés du gouvernement du Québec 2012-2013*, page 124. Available at http://www.finances.gouv.qc.ca/documents/Comptespublics/fr/CPTFR_vol1-2012-2013.pdf

6 Ibid, page 122.

7 Ministère des Finances du Québec, *Plan budgétaire 2013-2014*, Section I, page 24. Available at http://www.budget.finances.gouv.qc.ca/Budget/2013-2014/fr/documents/Planbudgetaire.pdf