



RÉGIME  
DE RETRAITE  
des groupes  
communautaires  
et de femmes

## **A Presentation on the community and women's groups' Member Funded Pension Plan (MFPP)**

Information document produced by the Comité de retraite du RRES-GCF  
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Université du Québec à Montréal

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**This presentation has been made possible thanks to the financial support of :**



Money working for people

## Outline

1. The current approach
2. What income will we be able to count on when we retire?
3. The option put in place: a supplemental pension plan adapted to the needs of community and women's groups
4. Managing the pension plan: balancing risk and return

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## The current approach

### **A collective project initiated in 2004 by Relais-femmes and the Centre de formation populaire (CFP):**

- Questionnaire survey of 5 000 groups
- Working group made up of persons in charge for about 15 networks within the Community movement: raising awareness, training and development of a pension plan adapted to the needs for the community and women's groups.
- Presentation tour of the networks and regions in 2007-2008: more than 2000 persons reached.
- Following the decision of almost 200 groups to join, **the Pension Plan has been in operation since October 1st, 2008.**

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**The Pension Plan has been in operation since October 1<sup>st</sup> 2008**

***As of September 2011 :***

|                      |              |
|----------------------|--------------|
| <b>Plan members</b>  | <b>2 514</b> |
| Participating groups | 341          |
| Assets               | \$7,776,638  |

***A fully operational pension plan !***

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**What will we be able  
to count on when we retire ?**

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**Ideally one aims at a rate of replacement of 75% to maintain hers or his standard of living after retirement: why?**

*Before retirement*

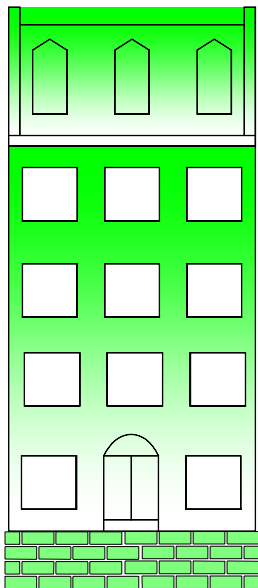
*After retirement*

|                  |          |                  |          |
|------------------|----------|------------------|----------|
| Wages            | \$40,000 | Pension (75 %)   | \$30,000 |
| <i>Less</i>      |          | <i>Less</i>      |          |
| Contributions... | \$5,080  | Contributions... | \$0      |
| Taxes (24,6 %)   | \$9,840  | Taxes (18,9 %)   | \$5,880  |
| Balance          | \$25,080 | Balance          | \$24,120 |

*That's why it is said that a replacement rate between 70 to 75%  
Is sufficient to maintain one's standard of living once retired*

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## The six-storied Canadian pension system



5) Other personal assets and income

4) Registered Retirement Savings Plans (RRSP,  
Locked-in RRSP as well as RRIF)  
Savings, individual or collective, with public fiscal help

3) Supplementary Pension Plans (SPP)  
Collective Insurance or savings with public fiscal help

2) Quebec Pension Plan (QPP / CPP)  
Income replacement, public (max: \$11,520)



1) Old Age Security (OAS)  
Universal (\$6,291), but clawback



6) Guaranteed Income Supplement (GIS)  
Assistance (max: \$7,940).  
Reduction by 50 ¢ for each 1\$ of income (# 2 to 5)

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**Income from public plans for a single person retiring in 2011 at age 65, taking into account earned income during the person's lifetime and assuming the person has no other income**

If the person, during active life has earned an income equal to :

|                  | 0% of average industrial wage | 50% of average industrial wage | 75% of average industrial wage | 100% of average industrial wage | 150% of average industrial wage |
|------------------|-------------------------------|--------------------------------|--------------------------------|---------------------------------|---------------------------------|
|                  | \$0                           | \$24 150                       | \$36 225                       | \$48 300                        | \$72 450                        |
| OAS              | \$6 291                       | \$6 291                        | \$6 291                        | \$6 291                         | \$6 291                         |
| QPP              | \$0                           | \$5 760                        | \$8 640                        | \$11 520                        | \$11 520                        |
| GIS              | \$7 940                       | \$5 060                        | \$3 620                        | \$2 180                         | \$2 180                         |
| Total            | \$14 231                      | \$17 111                       | \$18 551                       | \$19 991                        | \$19 991                        |
| Replacement rate | N/A                           | 71 %                           | 51 %                           | 41 %                            | 28 %                            |

**Insufficient public plans, of which the maximum does not even reach the poverty line!**

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**To get a pension plan requires money... and time!**

Capital required at age 65, according to objectives set by Mary, who wishes to retire at age 65 with an income before retirement of \$35,172, assuming a typical life expectancy for a 65 year old woman

| Income replacement ratio she hopes for | Corresponding initial income | Total cost of living indexed during retirement<br><i>(taking into account that the income from public pension plans is already fully indexed )</i> |           |
|--|------------------------------|--|-----------|
|  |                              | 50%  | 100%      |
| 65%                                    | \$22,862                     | \$97,818   | \$163,966 |
| 75%                                    | \$26,379                     | \$158,124  | \$234,448 |

***It is over the years and by starting early that one can hope to accumulate such amounts gradually, but it is never too late to start !***

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**How, after 65 years of age, the GIS and the taxation  
“penalize” the first \$15,000 earned on top of OAS**

**Table:** Illustration of the “tax trap” for a person, according to her total income, which carries out an additional withdrawal of \$100 of its RRSP (2009 income tax tables)

|  | \$18,000      | \$21,000      | \$23,000      |
|--|---------------|---------------|---------------|
| Additional income (RRSP, pension plan, net rental income, interest income)   | + \$100       | + \$100       | + \$100       |
| Lower Guaranteed Income Supplement due to this additional income   | - \$50        | - \$50        | - \$0         |
| Additional contributions or taxes to be paid for this additional income  | - \$16        | - \$34        | -\$30         |
| Total GIS reductions <b>and</b> taxes to be paid   | - \$66        | - \$84        | - \$30        |
| <b>Additional disposable income for every \$100 additional income once GIS reductions and taxes are taken into account</b> | <b>+ \$34</b> | <b>+ \$16</b> | <b>+ \$70</b> |

**What will be able to count on when we retire?**

▪ **Clearly insufficient public plans**

- If we thought we could use a small RRSP to supplement our income of \$18,000 or \$21,000 a year, we risk falling into a “fiscal trap” in which only 20% of our withdrawals from our RRSP will in fact be used to increase our disposable income.
- After the age of 65, the first \$22,171 in income (OAS, QPP, pension benefit, withdrawal from an RRSP or an RRIF, income from work above \$3,000 or investments) is subject to the GIS reduction and taxation (income tax and contributions), with a marginal rate ranging from 50% to 84%! In fact, in order to get out of this “fiscal trap”, we need a retirement income above the poverty level, which in 2010 was \$22,762 pour a single person in a large city.

*In the end, it may be better to accumulate savings outside a RRSP rather than in a smallish RRSP: house, Tax Free Savings Account (TFSA), equities and bonds*

## What will be able to count on when we retire?

- In addition to the difficulty that each individual has in adopting a satisfactory investment strategy, RRSPs include **management costs** of 2%, 3% or sometimes even more.
  - Every saving of 1% = 20% more income after retirement
- If we have not built a big enough savings nest for retirement (QPP, pension plan, RRSP, house or other assets), how shall we ensure income security at retirement ?

**Will we be able to count on some income from our labour** to make ends meet?  
And shall we have the health, the inclination and the possibility?

*Can we afford NOT to have a good pension plan ?*

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## The option put in place



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## The objective

- To provide community groups and their employees with a **flexible pension plan** and improve their working conditions with a goal of sustainable development for these groups.
- To target a 70% **rate of income replacement** on retirement, taking into account public federal and Quebec plans, or at least to come as close to this rate as possible.
- To ensure that employees of community and women's groups, who have worked all their lives for the dignity and rights of individuals and groups, **do not end up being poor themselves** after they retire.
- To seek to **index after-retirement income**, taking inflation and the plan's financial situation into account.

*On that basis, the committee agreed on the following consensus:*

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## 4 initial plan objectives

- 1) **We need an adapted pension plan that guarantees a retirement income**
- 2) **A single plan, but with flexible participation levels**
- 3) **Make individual additional participation possible**
- 4) **An administration in line with our values**

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**1 - We need an adapted pension plan which guarantees a retirement income**

- To give us greater income security on retirement:
  - We will not necessarily be able to earn our living through our work
  - Public pension plans do not provide enough income to live above the poverty line
  - We favour a **defined benefit plan** which, alone, can **guarantee us a life annuity**
- A better alternative than the current situation - no plan, or modest RRSP's that are costly and scattered - by making sure that these funds are managed properly (*socially responsible investments*) and that management costs are reduced to a minimum

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**What is the difference between a Member Funded Pension Plan (MFPP) and a group RRSP ?**

**Member Funded Pension Plan**

- Pension plan regulated by Quebec's *Supplementary Pension Plans Act*
- **Defined benefit pension plan:** the pension is **guaranteed for life**. Employee contribution may increase in case of deficit.
- Employer contribution must be at least equal to 50% of total regular contribution. For income tax purposes, it is not added to the employee's taxable income.

**Group RRSP**

- Savings plan established under the Income Tax Act.
- We know how much we put in, but we don't know how much we will get at retirement (return).
- May be used for the purpose of the Home Buyers' Plan (HBP)
- Employer contribution, if any, must be added to the employee's taxable income. Governments then levy various contributions from the employer or the employee ( $\pm 20\%$ ), then the employer contribution may be deducted from the employee's taxable income.

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## A defined benefit pension plan or a defined contribution/group RRSP: **what a difference !**

### Defined benefit plan (**DB**) : a guaranteed pension

- E.g.: \$10 annual pension for each \$100 of employee or employer contribution during working life
- This pension applies without taking into account plan return, its financial situation or the age at which I will die: **the plan supports the risk**

### Defined contribution plan (**DC**) or group RRSP: No guarantee, but risks

- I know how much I put in (contributions)
- No certainty on retirement income : what return until retirement ? What return after retirement ? Until what age must the money last ?
- **Member alone supports 100% of risks**

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## 4 reasons to opt for a defined benefit pension plan (DB) and live a secure retirement

1. It **guarantees your pension as long as you live.**
2. **More bang for the buck !** For the same level of contributions, a higher retirement income can be provided.
3. Risks related to return and life expectancy are supported **collectively.**
4. During your retirement, you will not have to manage your portfolio and face market fluctuations, administration fees, low returns and more importantly, insecurity.

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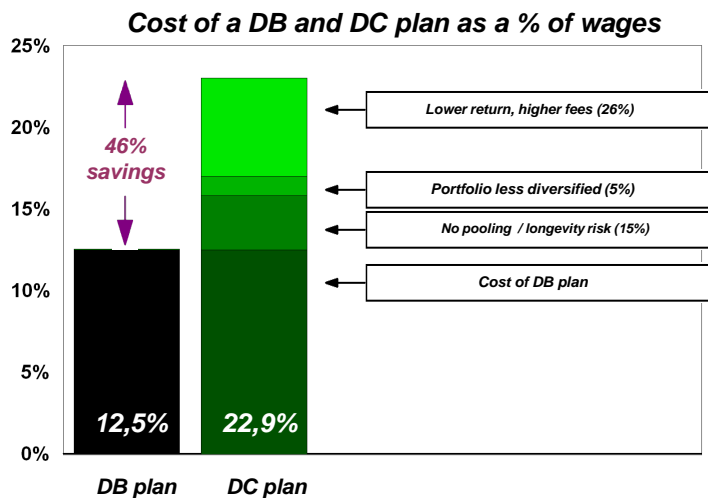
## Mercer's analysis illustrated: much more bang for the buck !

- On the basis of the American experience, DB plans generate, during the working life:
  - 1 to 2% per year more than DC plans (similar to RRSPs),
  - = 20 to 40% more capital at the time of retirement.
- A DB plan can pay a pension with half the capital required by an individual savings vehicle (e.g. RRSP/RRIF)
- In short: **with the same contribution, around \$2,50 of pension in a DB plan compared to a \$1 pension in a DC plan or RRSP !**

Source: Donald Fuerst, *Defined benefit plans: Still a good solution ?* MERCER, April 29 2004

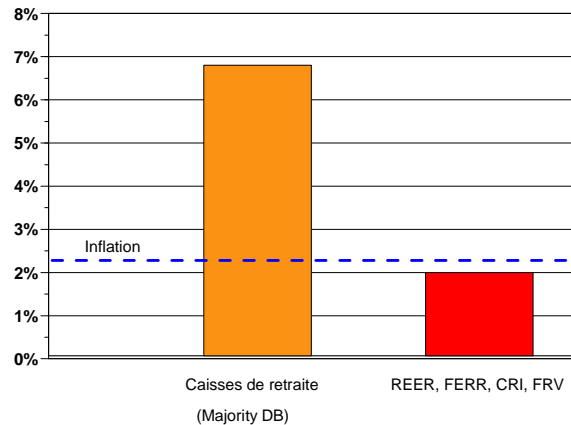
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### *The cost of a DB plan is almost half the cost of a DC plan*



Source: Almeida and Fornia, *A Better Bang for the Buck. The Economic Efficiencies of Defined Benefit Pension Plans.2008* 22

## **Pension plans: nearly 3 times the returns of RRSP/LIRA/RIFF/LIF between 1999 and 2005 !**



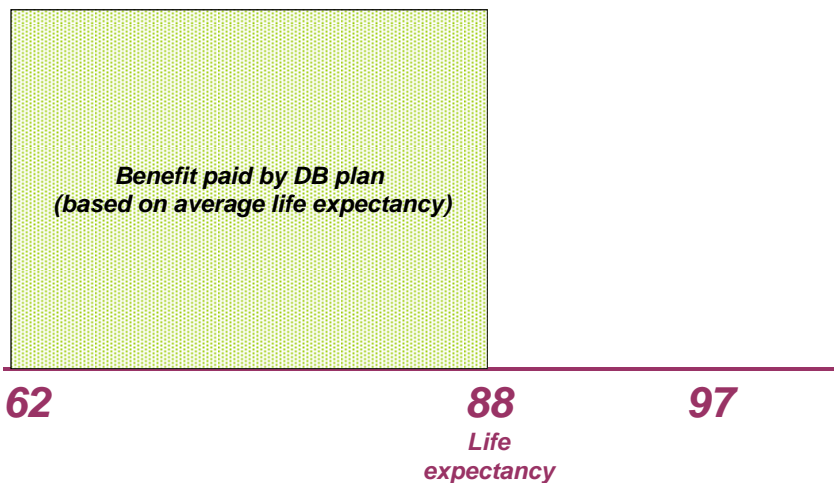
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Source: Barrette, Chabot et Langis, *Les revenus de retraite au Québec. Déterminants de la situation actuelle et projection jusqu'en 2035*. Régie des rentes du Québec, 2008. pp. 19-20.

## **RRSPs, a less efficient vehicle to ensure an adequate standard of living at retirement, according to a recent study from the Quebec Pension Board**

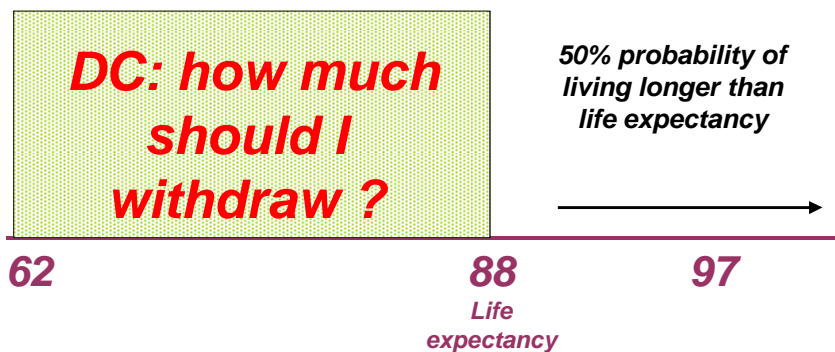
«This short analysis shows that there could be an important difference between the standard of living at retirement of the individuals who have access to a defined benefit pension plan and those who must rely solely on RRSP, LIRA, RRIF and LIF.»

24  
Source: Barrette, Chabot et Langis, *Les revenus de retraite au Québec. Déterminants de la situation actuelle et projection jusqu'en 2035*. Régie des rentes du Québec, 2008. pp. 19-20.

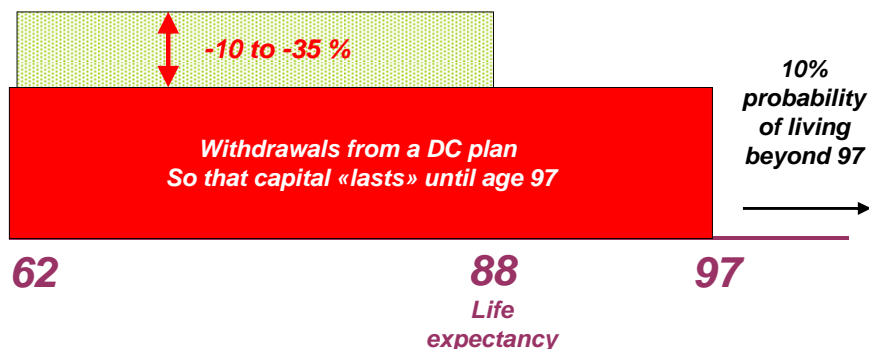
**The benefit of pooling longevity risk :  
+ 15 to 35% (Mercer)**



**The benefit of pooling longevity risk: the  
dilemma for a participant of a DC plan when  
he or she is retiring**



## The benefit of pooling longevity risk : + 15 to 35% (Mercer)



Source: Fuerst, Mercer Perspective on Retirement: Defined benefit plans: Still a good solution?, 2004)

## The difference: in short...

**A participant going into retirement after a year such as 2008  
when the stock market has fallen by 30%**

- Can expect to **receive a full pension** if he or she participates in an MFPP
- Must be ready to **face an important decline of the assets available in the RRSP** in the last year before retirement, as high as 20% maybe, which will reduce the expected retirement income and maybe raise the possibility of postponing retirement in order to reconstitute the asset level

***Conclusion: a MFPP rather than a RRSP !***

- Security et benefits guaranteed for plan members as long as they live
- Enhanced efficiency of a defined benefit plan, which makes it possible to pay 2 to 2½ more benefits for the same level of contributions

***Pool our assets and mutualise risk:  
a winning option for the community sector !***

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***2 - A single plan, but with flexible participation levels***

- **A single, multiemployer pension plan for all community and women's groups that decide, voluntarily, to join** the plan, with a joint administration and asset management so that we can benefit from a critical mass, economies of scale and the ability to act together in solidarity as a movement.
- **Each group can choose the level of contributions** (and therefore benefits) for all its employees.
- Personnel mobility will be taken into account by allowing rights to accrue if the participant moves from one participating group to another

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### **3 - Make individual additional participation possible**

- Since October 1<sup>st</sup> 2011, it is possible for a participant to purchase past service and thus increase *immediately* the *guaranteed pension*
- The participant can make additional voluntary contributions which will provide the same return as the fund, but benefit from lower management costs than ordinary RRSPs, once the start-up years of the plan are completed
- The participant may transfer funds into the plan from other plans (LIRA, supplemental pension plans or, if there is past service, RRSPs) by buying back immediately past service or by converting them into an additional pension.
- On retirement, the participant may convert the accumulated amount with interest into an additional guaranteed pension

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### **4 - Administration that conforms to our values**

- Ensure that the administration of this plan in terms of investment conforms to our values as closely as possible:
  - Eligibility rules based on equity and reducing insecurity
  - An investment policy and practices based on the best socially responsible investment practices that respect fiduciary standards and the need to finance the pensions promised, taking into account however the low initial asset size
  - Democratic governance representative of the various participating groups
    - Concerned with the appropriate male/female representation
    - Reflects the actual contribution and sharing of risk between the participants and groups

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***A member-funded defined benefit pension plan appears to be the most appropriate approach***

▪ **What is an «MFPP» ?**

A *member-funded pension plan* is a new type of **defined benefit** plan designed to enable you to count on a guaranteed income on your retirement, while taking into account the reality of smaller employers who do not have the coffers required to support a possible actuarial deficit

▪ **Main features :**

- **Guarantees the promised benefits;** thus special requirements put in place to ensure the security of promised benefits
- **Employer's liability restricted to paying the agreed upon contribution.** No liability whatsoever should a deficit arise, but the employer has no control over the pension plan
- Plan members, **collectively**, control the plan and support the risk; thus their contribution may be increased should there be a deficit
- The **indexing reserve** is the key element for managing risk; plan members and beneficiaries can be indexed, so long as plan remain fully funded and solvent
- Can be a single employer plan, or a **multiemployer plan** covering many employers in the same plan
- May not apply to employers who have employees in other provinces or are under Federal jurisdiction

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***A member funded defined benefit pension plan seems the option best adapted to our needs***

- The Law and regulations provide a strict framework in order to ensure that promised benefits will be paid.
- We have built on this foundation by reinforcing risk controls and by adapting the plan to the reality of community and women's groups.

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## The basic formula for the promised benefit

- Each **group** that participates **determines** the level of contribution:
  - The **total** contribution, employee + employer, for the current service (minimum 2%, maximum 18% of pensionable earnings)
  - The **employer's** contribution must be **at least 50%** of the total contribution for the current service and can go up to 100% of this total contribution
  - The **employee's** contribution is equal to **the difference** between the total contribution required and the employer's contribution
- Each **\$100 of contribution -> annual pension of \$10 at 65**
  - This formula, established on a deliberately conservative basis, also includes a reserve for indexation which, at the same time serves:
    - As a **reserve to absorb blows** during bad years;
    - To **index the accumulated pension credit or the pension paid after retirement**, when the financial situation of the plan allows;
  - This formula can vary over time, depending on changes in the characteristics of the group and the financial situation of the plan (actuarial valuation at least every 3 years). The initial objective was to maintain a stable pension formula and contribution rate.

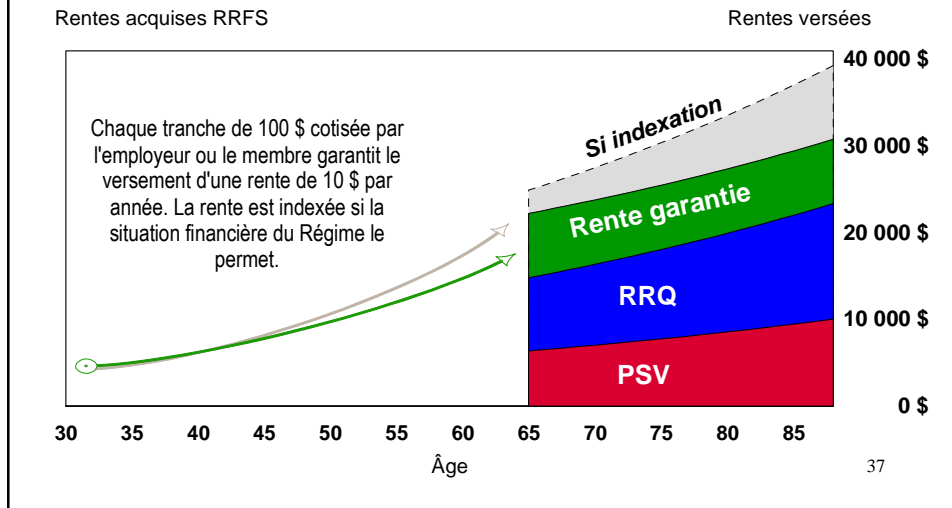
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## The basic formula: an example

- Mary works in a group in which the participants and the group each contribute 5%
- She earned \$30,000 in 2011, for a total contribution of  $(5\% + 5\%) \times \$30,000 = \$3,000$
- She therefore contributed 30 times \$100, and therefore acquired an annual pension of  $30 \times \$10 = \$300$ . If she lives 22 years after retirement, her initial contribution of \$3,000 will «buy» a total pension of \$6,000, without taking into account any indexing
- This amount may be indexed in the future, both before the retirement as well as after, if the financial situation of the plan (indexing reserve) allows
- This amount is added to the pensions acquired during the other years in which Marie worked

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***A guaranteed pension which complements public plans and will be indexed depending on the financial situation of the plan***



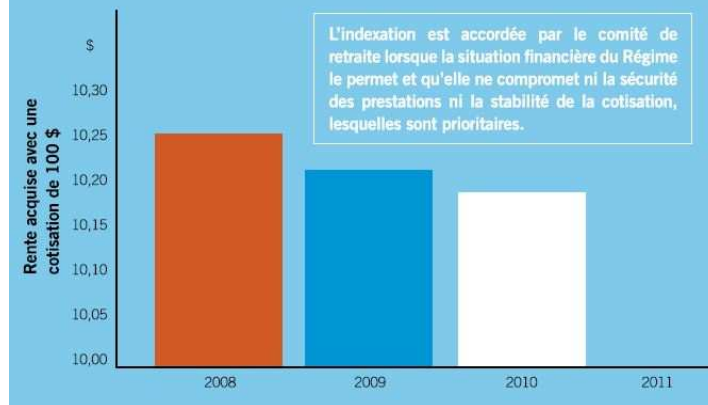
***Financing according to the financial situation of the Plan***

- At least every three years, an actuary calculates the exact formula for the Plan's financing (ex.: "a contribution of \$100 finances an annual pension indexed to the cost of living of \$10"), taking into account, among others the characteristics of the group (age, sex).
- **The actuary determines if assets are sufficient to pay benefits already accrued by active or retired members.**
  - **In good times** (there is a surplus, assets > liabilities), the pension committee must index pension credits of active and retired members to cover inflation for the last 3 years **before** any other use of surplus.
  - **In bad times** (there is a deficit, assets < liabilities), the committee must increase the employee contributions to amortize this deficit over a certain number of years and may not index benefits nor introduce any other benefit improvement
  - **Prudence and risk management** are the key therefore to ensure a contribution rate as stable as possible while being able to regularly index pension credits

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## **Indexation has already been granted for pensions acquired between 2008 and 2010**

**Graphique 4 - Évolution de la rente achetée par 100 \$ de cotisation selon l'année où la cotisation a été versée**



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## **Membership: the group**

|   |   |
|---|---|
| A group <b>may</b> join the plan if   |   |
| 1) Approved by its Board  | <i>Make sure that the decision to join represents a joint and enlightened decision by the group and its employees</i> |
| 2) Approved by the Union or, if none, by a majority of employees of the group.  |   |
| <p><b><i>A notice must be sent to each non-unionized employee: 30% may prevent the group from joining. See the Guide d'Adhésion published by the Pension Plan for more details.</i></b></p> |   |

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## Membership: employees in the group (as of March 1<sup>st</sup> 2011)

- 1) A regular employee **must** join 3 months after their hiring date
- 2) A person already member of the plan (*previous employment*) **must** join on hiring date
- 3) An employee with 5 years of continuous service within a group **must** join
- 4) An employee **may** join if she works 700 hours or earns 35% of YMPE (16 905 \$ in 2011) in a given year for one or many groups covered by the plan on January 1<sup>st</sup> of the following year (*if working for more than one group, please contact directly the pension plan office*)
- 5) An employee already employed by a participating employer before or on February 28<sup>th</sup> 2011 **may** join after 2 years of continuous service within that group
- 5) Any employee aged 71 or more may not join to the Plan and may no longer contribute.

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## Retirement age

- Basic formula (**\$10** per year for each **\$100** of contributions) applies for a retirement at **65 years of age**
- Early retirement possible at 55 years, but a reduction in the pension of 6% per year before the age of 65
- Possibility of receiving a higher pension before 65 years of age, up to the lesser of \$19,320 a year or the accumulated value of the benefits, and then having the pension reduced at age 65 to reimburse these payments: an option for persons with few years in order to minimize the impact of the “fiscal trap”
- Retirement after 65 years of age involves an increase in the pension of 6% per year. The payment of the pension must begin at 71 years

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## Buying back past service and transfers: increasing *immediately* the guaranteed pension

- Since October 1<sup>st</sup> 2011, it is possible to transfer funds held in a RRSP, a LIRA or other pension plan in order to **buy back past service** before becoming a plan member with the current employer or a previous employer currently participating in the Plan. Buying back past service allows to **increase immediately the guaranteed pension**. The cost is based on the present salary and contribution level as well as the age and sex of the participant.
- Eventually, it may be possible to transfer from another pension plan to the extent that a bilateral transfer agreement between the 2 pension plans is in place. At his time, no agreement has been signed. In such a case, the amount transferred would be *immediately* converted into an additional pension, based on the member's age and sex.

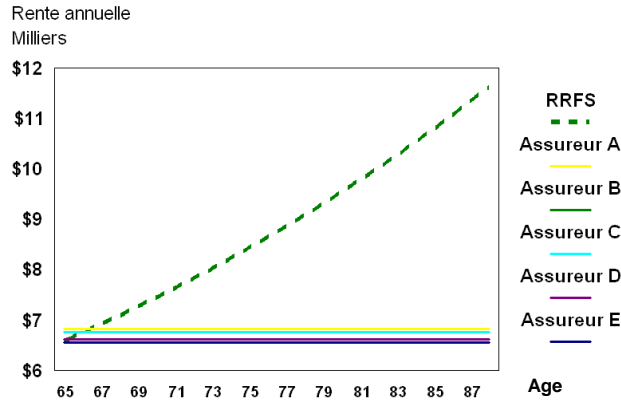
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## What about additional voluntary contributions ?

- **Additional voluntary contributions**, paid from the wages or from an RRSP, *accumulate with interest until retirement*. On retirement, the person has a choice between:
  - **Transferring** this accumulated amount to the RRSP of his or her choice
  - **Converting this amount into an additional retirement pension**, an annuity guaranteed by the plan, with the same characteristics as the regular pension plan, including the provision for indexation
  - **Purchasing a guaranteed annuity from an insurer**
- 3 important advantages of the lifetime annuity paid by the plan:
  - **Security** of a pension until death, no matter what the age, rather than *savings*: the risk is supported by all the participants collectively
  - The amount of the pension will be higher than withdrawals from an RRSP/RRIF
    - Higher tolerance to risk on the collective level, based on an investment strategy that offers hope of a higher performance, not to mention the possibility of regular indexation
  - The amount of the pension is higher than an annuity offered by insurers (less conservative assumptions than insurers and no fees, overruns or profits)

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## **Pension of a woman who retires at age 65 with a capital of \$100,000**



**Unlike annuities sold by insurance companies, MFPP's pension includes the possibility of indexing, based on the plan's financial situation, and comes with a 5 year guarantee**

Source: Actuaire-Conseils Bergeron & Associés Inc. for the conversion factors (Interest 5,75% - Indexing 2,5%). Site of a Montreal based DC plan where members can buy lifetime income annuities from insurers when they go into retirement without any period of guarantee April 30<sup>th</sup> 2011. It should be noted that indexing is not guaranteed in the MFPP, but that it is actually funded in the calculation done here.

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## **What happens during leaves ?**

- The group must pay the employer contribution if the employee chooses to pay the employee contribution for some types of leaves\*, including:
  - professional illness or labour related accident (maximum 24 months)
  - illness (maximum 26 weeks over a 12 month period)
  - maternity leave (max. 18 weeks) or paternity (max. 5 weeks)
  - parental leave (maximum 52 weeks. May be prolonged if required given the child's health condition)
  - leave because presence is required near a close parent because of a grave illness (max. 12 weeks, or 104 weeks if the employee's child has a grave illness, potentially life threatening)
- The employee may keep contributing employer and employee contributions:
  - Leave without pay (maximum 6 months)
- Each group may agree with employees to put in place more generous terms, such as who pays contributions or the maximum length, subject to applicable legislation and approval by the pension committee (see Appendix 4 of the pension plan text).

\*A description of all the leaves covered by various legislations and a form to be signed at the beginning of each leave have been prepared by the pension plan and are available on demand (In French)

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## What happens when the employee changes jobs?

- To another group covered by the plan
  - Participation in the plan continues at the time of hiring, independently of the status with the new employer (regular employee or not)
- Elsewhere: choice between
  - Retaining the right to a deferred annuity (which could be indexed regularly before or after retirement, depending on the financial situation of the plan)
  - Transferring to another pension plan or a locked-in retirement account (LIRA), a type of RRSP, an amount equal to:

$$\text{Value of the acquired pension} \times \text{Plan's solvency ratio}$$

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## What happens if the employee dies before his retirement ?

- The plan must pay the *current value of the pension, multiplied by the rate of solvency* to the spouse or, if there is none, to the designated beneficiaries or the estate.
  - **Defined benefit:** the amount of money that must be put aside *today* in order to pay the accrued benefit, taking into account the solvency ratio
  - **Additional contributions:** the accumulated value of the contributions with interest

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## Protecting the spouse after retirement

According to the Quebec's Supplemental Pensions Act:

- When the employee retires, the spouse decides, in the event the member dies, whether or not he/she wishes to be entitled to a surviving spouse's pension equal to 60% of the member's pension (the pension of the member must then be reduced by + 15% to finance this option)
  - At the time of death, the spouse receives 60% of the member's pension for the rest of his/her life
- The spouse *may* renounce to a survivor benefit: in this case, it is the designated beneficiaries that are entitled to benefits, if applicable (e.g. 5 years guarantee)
- The participant may also choose a guaranteed 10-year annuity (see following slide)

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## Guaranteed 5 or 10-year guarantee: an interesting option to protect your loved-ones

- The pension plan automatically guarantees 5 years of pension disbursement to the spouse or, if there is none, to the designated beneficiary
- On the member's retirement, he/she may choose an option guaranteeing the payment of the pension for 10 years to his/her spouse or, if there is none, to the designated beneficiary (premium of about 3% of the pension)
- Interesting protection for the spouse or for persons who are financially dependent on the member

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## Some simulations

- **Assumptions:**
  - For the next 40 years, wages will increase on average 1% more than inflation per year
    - *1% is a low figure by historical standard over a long enough period;*
    - *If future wages increase at a slower pace, then the future pension will be lower in dollars than in our simulations, but will represent a higher replacement ratio of the final salary earned*
  - Annual return of the pension plan before retirement: 6,5%
- Benefits of public plans in 2011 used to better illustrate examples
- Return assumption implies that the pension plan can index pension credits of active members and pensions paid to retirees
  - *If, at some point in time, the pension plan cannot index, one may assume that they will be able to catch up when the financial situation improves, a likely situation given the conservative bias of the assumptions.*

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## Mary

- **Marie** retires at age 62
- Her salary at age 62: \$27,500
- QPP benefit at age 62: \$5,331
- She has worked in a group covered by the plan from 25 to 32, and then since age 42.
- When she left at age 32 to raise her children, Mary left the money in the fund.
- Total contribution was 8% per year but, since age 50, contribution level has been 10%

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## The results for Mary (retirement at 62 years)

|          | OAS      | QPP      | MFPP    | Total pension income | Replacement ratio (purchasing power) |
|----------|----------|----------|---------|----------------------|--------------------------------------|
| 62 years |          | \$5,378  | \$5,013 | \$10,392             | 37%                                  |
| 65 years | \$6,874  | \$5,877  | \$5,478 | \$18,229             | 59%                                  |
| 72 years | \$8,454  | \$7,228  | \$6,738 | \$22,420             | 59%                                  |
| 80 years | \$10,710 | \$9,156  | \$8,535 | \$28,401             | 59%                                  |
| 85 years | \$12,415 | \$10,615 | \$9,894 | \$32,924             | 59%                                  |

If she is disappointed with those results, Mary has 2 options to increase the replacement ratio:

- she sets back her retirement age to 65 and,
- She contributes voluntary additional contributions equal to 3% of wages

*What would she get out of this ?*

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## The results for Mary if she delays her retirement until she is 65

|          | OAS      | QPP      | MFPP     | Total retirement income | Replacement rate (purchasing power) |
|----------|----------|----------|----------|-------------------------|-------------------------------------|
| 65 years | \$6 291  | \$6 559  | \$7 600  | \$20 450                | 64%                                 |
| 72 years | \$7 737  | \$8 067  | \$9 347  | \$25 151                | 64%                                 |
| 80 years | \$9 801  | \$10 219 | \$11 840 | \$31 860                | 64%                                 |
| 85 years | \$11 362 | \$11 846 | \$13 726 | \$36 934                | 64%                                 |

By prolonging for 3 years her working life, Mary has increased her income replacement rate to 64%, an improvement, but still not enough to maintain her standard of living after retirement

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**The results for Mary if she had contributed 3% of her salary as voluntary contributions and retired at 65 years**

|          | OAS      | QPP      | MFPP    | Pension financed out of voluntary contributions | Total pension income | Replacement ratio (purchasing power) |
|----------|----------|----------|---------|---|----------------------|--------------------------------------|
| 65 years | \$6 291  | \$6 559  | \$5 478 | \$3 092   | \$23 541             | 74%                                  |
| 72 years | \$7 737  | \$8 067  | \$6 738 | \$3 802   | \$28 953             | 74%                                  |
| 80 years | \$9 801  | \$10 219 | \$8 535 | \$4 817   | \$36 677             | 74%                                  |
| 85 years | \$11 362 | \$11 846 | \$9 894 | \$5 584   | \$42 518             | 74%                                  |

By postponing for 3 years her retirement and thanks to voluntary contributions made during her working lifetime, Mary will finally obtain a replacement rate of 74%, enough to maintain her standard of living

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## *Francine*

- **Francine** was a latecomer to the pension plan (50 years)
- At the time she became a plan member, she transferred \$35,000 she had in another pension plan (from a previous employer, for instance)
- Total contribution is 6%
- She pays an additional voluntary contribution of 2%
- Her income before retirement at age 65 is \$34,000
- QPP pension : \$8,109
- Francine is not optimist, but wants to know how much she will get

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## Results for Francine

|        | OAS      | QPP      | MFPP    | Pension from<br>voluntary<br>contributions | Total<br>pension<br>income | Replacement<br>ratio<br>(purchasing<br>power) |
|--------|----------|----------|---------|--|----------------------------|---|
| 65 ans | \$6,291  | \$8 109  | \$2 862 | \$6 364                                    | \$23 626                   | 67%   |
| 72 ans | \$7,737  | \$9 973  | \$3 520 | \$7 827                                    | \$29 057                   | 67%   |
| 80 ans | \$9 801  | \$12 634 | \$4 459 | \$9 915                                    | \$36 809                   | 67%   |
| 85 ans | \$11 362 | \$14 646 | \$5 170 | \$11 494                                   | \$42 672                   | 67%   |

To her surprise, Francine will be able to maintain her standard of living, or be very close to it

*What makes a difference in her case is the \$35,000 transfer she made when she joined the plan (which increased her initial pension) plus her additional voluntary contributions*

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## *Mélanie*

- **Mélanie** earns a modest salary: \$25,000 when she leaves for retirement
- Her group contributes 2% + 2%
- She has been a plan member since age 31
- She wants to retire at age 61
- QPP Pension : \$4,532
- Mélanie is not optimist, but wants to know how much she will get
- For this example, we will take into account the Guaranteed Income Supplement, assuming Mélanie will have not other source of income

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## Results for Melanie

|          | OAS      | GIS     | QPP     | MFPP    | Total pension income | Replacement ratio (purchasing power) |
|----------|----------|---------|---------|---------|----------------------|--------------------------------------|
| 61 years |          |         | \$4 532 | \$4 097 | \$8 629              | 34%                                  |
| 65 years | \$6,291  | \$3 084 | \$5 100 | \$4 611 | \$19 087             | 66%                                  |
| 72 years | \$7,737  | \$3 793 | \$6 273 | \$5 671 | \$23 475             | 66%                                  |
| 80 years | \$9 801  | \$4 805 | \$7 946 | \$7 184 | \$29 737             | 66%                                  |
| 85 years | \$11 362 | \$5 571 | \$9 212 | \$8 329 | \$34 473             | 66%                                  |

Melanie will have a low replacement ratio, especially before 65, and her total income will be under the poverty line. She is still entitled to GIS.

*This is what would happen if Melanie (1) had contributed 3% in voluntary additional contributions and (2) waited at age 65 to take her retirement.*

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## Results for Melanie if she paid voluntary contributions and retired at age 65

|          | OAS      | GIS     | QPP      | MFPP    | Pension bought with additional contributions | Total pension income | Replacement ratio (purchasing power) |
|----------|----------|---------|----------|---------|--|----------------------|--------------------------------------|
| 65 years | \$6,291  | \$1 985 | \$5 963  | \$4 368 | \$1 579                                      | \$20 186             | 78%                                  |
| 72 years | \$7,737  | \$2 442 | \$7 333  | \$5 372 | \$1 942                                      | \$24 826             | 78%                                  |
| 80 years | \$9 801  | \$3 093 | \$9 290  | \$6 805 | \$2 460                                      | \$31 449             | 78%                                  |
| 85 years | \$11 362 | \$3 586 | \$10 769 | \$7 889 | \$2 852                                      | \$36 458             | 78%                                  |

Melanie will be able to maintain her standard of living, but is still under the poverty line. The impact of her voluntary contributions is for the most part cancelled by the loss of GIS benefits and higher taxes and contributions, because she is still caught in the “fiscal trap” mentioned at the beginning of the presentation. She will be in this situation if she has other income up to \$3,971, which will be clawed back by the state at a rate between 66 and 84%.

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## What these scenarios indicate

- A **total** contribution of 8 to 12% over at least 25 years with retirement at 65 offers hope of a pension income close to our objectives
- Joining later or retiring earlier can be compensated for by transfers from other plans or a sufficient level of additional contributions
- Time plays in favour of the participants who are in their 20s or 30s to ensure income security on their retirement.
- The least advantaged groups are those who did not manage to avoid the “fiscal trap” because :
  - They joined too late
  - Had insufficient years of contributions, or
  - Retired young,
  - AND had not enough voluntary contributions or transfers to compensate
- Besides voluntary contributions, another option for people likely to be caught in the “fiscal trap” is to contribute to a **Tax Free Savings Account (TFSA)**, which will not impact GIS benefits nor be taxable. There are no deductions when contributing to a TFSA, but investment income and withdrawals are not taxable.

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## How will the pension plan be administered?

**The envisioned governance:**

**For a democratic, transparent management  
that respects our values**

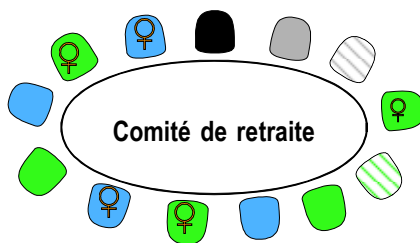
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## An annual meeting, to ensure democratic and transparent management

- The retirement committee must hold an annual meeting
- To be held in each region/location where numbers justify, if possible
- Goal:
  - To report on the administration of the plan and its financial situation
  - To provide information on changes to the plan that have been made or are being considered
  - To elect the retirement committee which is responsible for administering the pension plan

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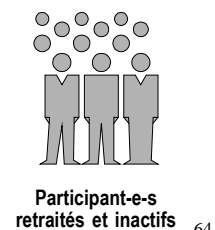
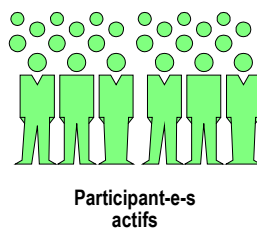
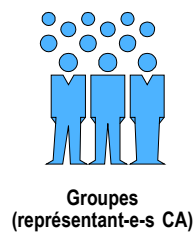
## A representative pension committee



On top of the representation required by Law (1 active, 1 retiree, 1 active et 1 retiree without the right to vote, 1 independent), 4 elected by the actives and 4 by the groups (employers).

*A composition that reflects the higher risk supported collectively by plan members.*

**Gender equality: at least 2 women from groups and 3 from actives**



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## The members of the pension committee

### Members representing active participants

|                       |  |
|-----------------------|--|
| Suzanne Daneau        | La Boîte à lettres de Longueuil                                      |
| Chantal Dugré         | Centre des femmes de Shawinigan                                      |
| Charles Guindon       | Chantier de l'économie sociale, Montréal                             |
| Nathalie Lachance     | Carrefour Jeunesse-Emploi Thérèse-de-Blainville                      |
| Pierre Riley *        | Fédération des centres d'action bénévole du Québec (FACBQ), Montréal |
| Sylvie Pellerin (sdv) | Entreprise de formation Dimensions, Québec                           |

### Members representing inactive participants

|                     |  |
|---------------------|--|
| Steve Marcoux       | Comité d'accueil international des Bois-Francis, Victoriaville |
| Céline Béland (sdv) | Ressources-Naissances, Lévis                                   |

### Members representing employers

|                   |                                     |
|-------------------|-------------------------------------|
| Lise Gervais *    | Relais-femmes, Montréal             |
| Francine Grégoire | L'enjeu: cap sur l'emploi, Montréal |
| Sylvain Lagacé *  | Maison l'Aid'Elle, Gaspé            |
| Nathalie Roberge  | Centre d'action bénévole de Granby  |

### Independent member

|                 |   |
|-----------------|---|
| Michel Lizée, * | Service aux collectivités de l'UQAM, Montréal |
|-----------------|---|

\* Members of executive committee

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## Mandate of the pension committee

- Legally, administrator and trustee of the plan
- *“151. The pension committee shall exercise the prudence, diligence and skill that a reasonable person would exercise in similar circumstances; it must also act with honesty and loyalty in the best interest of the members or beneficiaries.”- Supplemental Pension Plans Act*
- Adopt and modify the text of the pension plan and apply it, while respecting the applicable laws
- Apply the participation and, if applicable, retirement procedures of the groups
- Receive the contributions, pay benefits, manage the pension fund
- Retain the services of external managers, actuarial accountants
- Conclude transfer agreements with other pension plans
- Adopt a funding and socially responsible investment policy
- Provide information to the groups and members and raise their awareness of issues related to retirement
- Report to the groups and members on the plan's administration and financial situation at each annual meeting

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## Is this plan viable ?

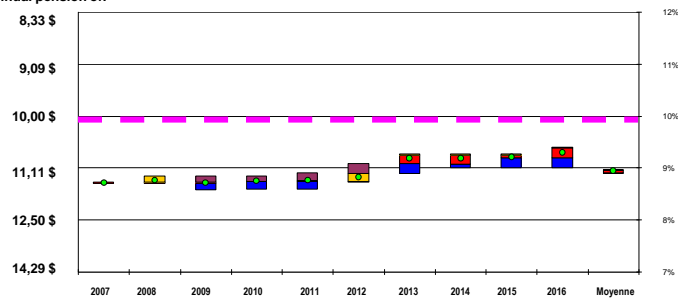
- The viability of the plan was the focal point of its design (conservatism in the pension formula, necessity for an inter-enterprise plan, etc...)
- Together with the FTQ unions, we ordered an actuarial study to be carried out by the actuarial firm, SAI, to verify to what extent our plan would stand up to thousands of economic scenarios reflecting what could happen over the next 10 years. The study looked at 2000 possible scenarios to see what would happen to contribution to the plan according to several types of environments.
- **The conclusion:** our plan is completely viable, but there continues to be a probability, a risk, modest but real, of increases in the employee contribution to amortize deficits, particularly in the beginning.

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## A priori, a controlled risk...

100 \$ in contribution  
buys an annual pension of:



Source: Services actuariels SAI, Projections financières par modélisation stochastique, 2007, scénario 14, p. 3

- With a population similar to ours on January 1st 2008, and on the basis of conservative actuarial assumptions, there is a 90% probability that a contribution of \$100 buys an annual pension between \$10,75 and \$11,49
- The plan should generally be in surplus for the whole period. Therefore, most likely, no additional contribution should be required to amortize a deficit.
- These results confirm the prudent and conservative character of the benefit formula envisioned (\$100 in contribution buy an annual lifelong pension equal to \$10)

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## Managing the pension plan: balancing risk and return

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## A funding and use of surplus policy centered on prudence

- 3 main objectives (in order)
  1. Be able to pay promised benefits
  2. Aim for a stable contribution
  3. Subject to the 2 preceding objectives, to ensure the indexing of the pensions
- Conservative assumptions for the conversion formula of contributions into pension (\$100 buys \$10 per year at age 65)
- Use of surplus policy aims to constitute reserves equal to the Indexing reserve plus 10% **before** granting improvements, in order to have a cushion to go through more difficult periods
  1. Indexing is the priority, beginning with the earlier years up to the last actuarial valuation
  2. Convert into a pension benefit any contribution paid by active participants when there was a deficit to be amortized
  3. Improve the active and retired participants' benefit by a uniform percentage up to the point when the surplus goes back down to the 10% lower limit

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## The fund manager structure in place

| Asset class           | Fund and manager   |
|-----------------------|--|
| Canadian bonds (40%)  | Long term Bonds <b>Fiera</b> (15%)<br>Canadian Bonds <b>Addenda</b> (15%)<br><b>Beutel Goodman</b> Income Fund (10%) |
| Canadian equity (30%) | <b>Jarislowsky Fraser</b> Canadian equity (15%)<br><b>BlackRock</b> active Canadian equity (15%)                     |
| Globalequity (30%)    | <b>McLean Budden</b> Global equity(15%)<br><b>Hexavest</b> Global equity (15%)                                       |

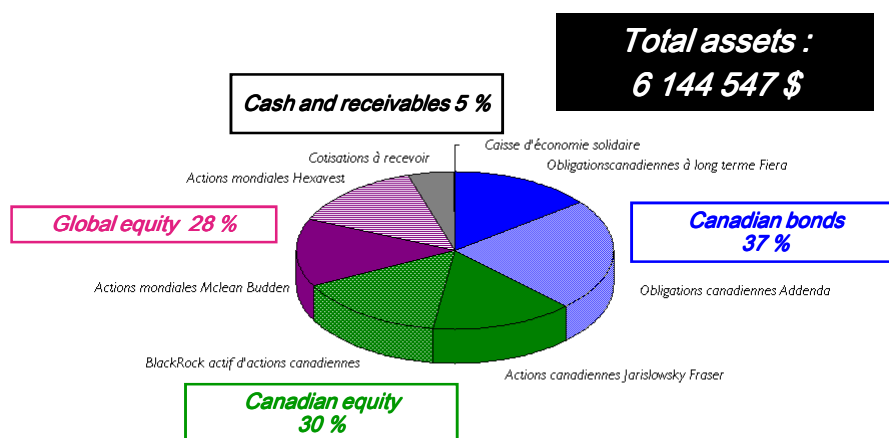
All those funds are on the investment platform of **Desjardins Sécurité financière (DSF)**, and **Fiducie Desjardins** is the custodian.

Pension plan funds are secure. They are held by a custodian and are managed professionally.

70% of plan assets are managed in Quebec.

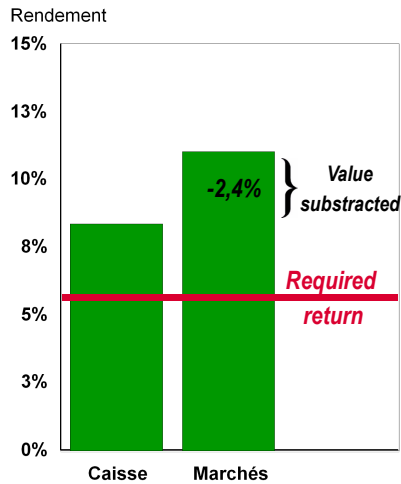
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## Allocation of plan assets as of December 31<sup>st</sup> 2010

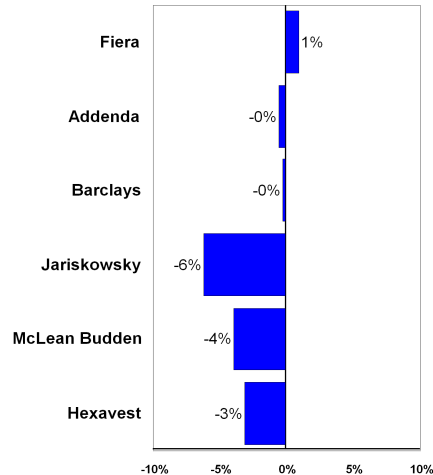


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**Value added for total fund and according to managers for the year ending December 31<sup>st</sup> 2010**

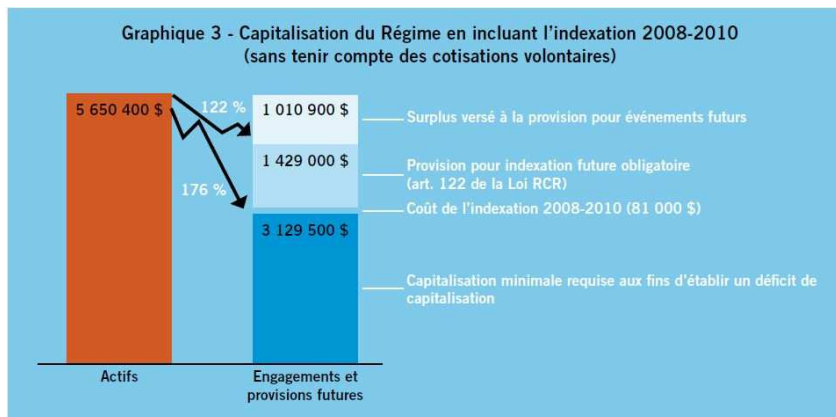


**Value added of 1,9% since inception**



**All fund managers but one, Hexavest, have added value since inception**

**Plan funding as of December 31<sup>st</sup> 2010, taking into account the indexing granted for 2008-2010 pensions**

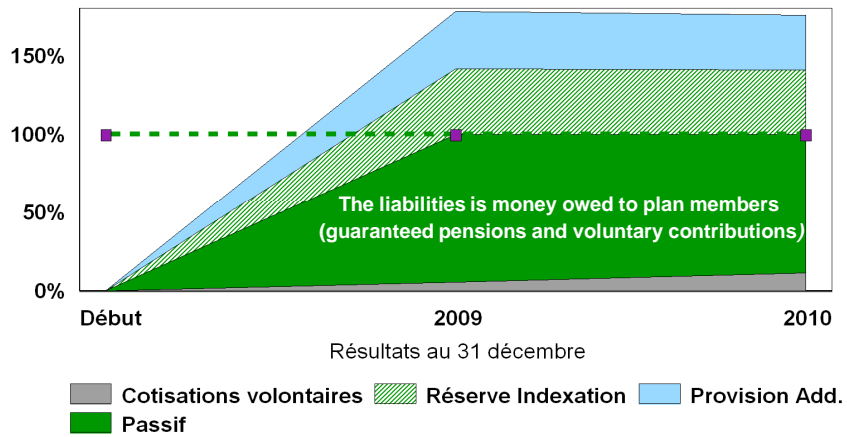


**After 2 years, a reserve has been constituted to ensure the security of promised benefits and contribution stability while allowing us to index pensions acquired between 2008 and 2010.**

## Sufficient assets to pay guaranteed pensions for members who leave the plan

The actuarial valuations' results

En % du passif

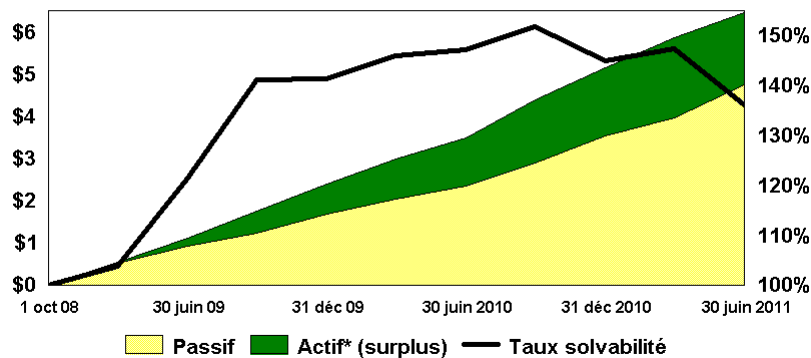


## Solvency ratio as of June 30<sup>th</sup> 2011

### Sufficient assets to pay guaranteed pensions for members who leave the plan

Actif et Passif (' 000 \$)  
Millions

Taux de solvabilité



\* The actuary deducts from the assets the plan termination costs

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## Prizes recognizing the contribution, the benefits and the *achievements* of the Plan



***Prix «Initiative gagnante», 2008***



***Plan Sponsor Award, 2010***

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**For more information :**

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**Web Site : [www.regimeretraite.ca](http://www.regimeretraite.ca)**



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