

LAW & POLICY GROUP

GRIST

QUÉBEC TO INTRODUCE PENSION CHANGES

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Québec's government announced its intention to introduce target benefit plans for single employers next spring, as part of its [Fall Economic Statement](#) presented on 7 November. The finance minister also encouraged Quebecers to reflect on steps that would improve their retirement planning.

HIGHLIGHTS OF THE STATEMENT

The economic statement notes that Canada's pension system was ranked ninth out of 37 countries in the [2019 Mercer Melbourne Global Pension Index](#). Despite Canada's high pension ranking, the government warns that future improvement depends on:

- More employees having occupational pension schemes
- Reduced investment management fees in capital accumulation plans
- Increased personal savings and reduced household debt
- Increased participation of experienced workers in the labor market

Many of the pension measures presented in the economic statement are consistent with Mercer's recommendations. The government is encouraging Quebecers to become more familiar with the retirement system and properly plan their retirements to benefit from the system's strengths. For the first time, the government emphasizes the advantages of deferring Québec Pension Plan (QPP) benefits and federal Old Age Security benefits, to help workers better manage investment and longevity risks.

The government also urged employees to consider working longer and has presented incentives to work during retirement — which comprises the fourth pillar of the retirement income system.

PLANNED TARGET BENEFIT PENSION PLAN LEGISLATION

Following consultations with major unions and employer associations, the government announced its planned publication of target benefit pension plan legislation for next spring. Target benefit pension plans will help compensate employees for the decline in traditional occupational defined benefit (DB) plans,

offering greater predictability and more risk pooling compared with defined contribution (DC) plans. Mercer assumes this bill would be restricted to Québec employees.

Target benefit pension plans will have the following features:

- Available in unionized and non-unionized environments
- Negotiated, predictable and fixed employer contributions
- Lifetime monthly annuity. Although not fully guaranteed, the annuity amount could be estimated in advance based on a predetermined formula, and could increase or decrease depending on the plan's financial health.
- The pooling of investment and longevity risks among active and retired plan members

Once a target benefit pension plan is created, the plan's provisions will need to outline how risks would be managed and the method for adjusting contributions and/or benefits to accommodate changes in the plan's financial situation.

A STEP TOWARD A COMPLETE PROHIBITION OF DISPARITY CLAUSES?

Last December, the Québec National Assembly unanimously agreed to prepare legislation that prohibits disparity clauses in pension and employee benefit plans that allow different treatment based on an employee's date of hire.

In Mercer's view, a complete prohibition on the use of disparity clauses would cause serious issues for employers. Given their risks, employers do not wish to return to DB pension plans. If employers must include all employees in the same pension plan, they likely would want to speed up the transition to DC plans. Experienced workers would be the most impacted by a prohibition on disparity clauses if they were required to change their retirement date or alter their financial plans shortly before their anticipated retirement age.

Consequently, target benefit pension plans could provide another negotiating tool for employers as they offer better risk pooling than DC plans, and don't pose the financial risks associated with DB plans. Stakeholders involved in negotiating renewals of collective agreements should give careful consideration to the option of target benefit pension plans.

RELATED RESOURCES

Non-Mercer Resources

- [Press Release](#) (Finance Ministry, 7 Nov 2019)
- [Update on Quebec's Economic and Financial Situation](#) (Finance Ministry, 7 Nov 2019)

Mercer Resource

- Melbourne [Mercer Global Pension Index](#) (21 Oct 2019)

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