Submission on the document *Strengthening the Plan to Promote Greater Intergenerational Fairness* and the support document *Observations on Retirement in Quebec*

Adapting our approach to the Quebec reality

Presented to

The Committee on Public Finance
National Assembly

by

The Canadian Life and Health Insurance Association – Quebec Section (ACCAP-Quebec)

January 18, 2017

TABLE OF CONTENTS

Adapting our approach to the Quebec reality

We wish to thank the Committee on Public Finance for the opportunity to comment on the document entitled *Strengthening the Plan to Promote Greater Intergenerational Fairness* tabled in December 2016, along with the document *Observations on Retirement in Quebec*.

Our comments pertain in particular to the continuance of a three-level retirement system that will help to ensure the sustainability of the Quebec Pension Plan and the financial security of Quebecers. We believe that a healthy and efficient retirement system depends on the participation both of the government and of individuals and their employers, according to the means of each.

In comparison with the other provinces, Quebec's situation is unique due to its sociodemographic profile and the fact that payroll taxes here are higher than elsewhere in Canada. This reality calls for specific measures to ensure adequate support for future retirees. However, with financial education returning to the school curriculum, and the introduction of the VRSP as a vehicle for saving in the workplace, in addition to the many other savings vehicles already available, we can look to the future with confidence. We must give these various initiatives the necessary time to produce their combined effect.

As noted in the document *Observations on Retirement in Quebec*, life expectancy has risen rapidly over the last 50 years, and society is still coming to grips with these changes. Similar transformations or changes have been observed in other areas as well. Just think of the environment. On that front, concerted actions have paved the way for real social change. This is what we fervently hope to see a few years from now in the area of retirement savings. We hope to see ever greater numbers of Quebecers with investments set aside for their retirement. We will, however, have to wait a while longer before the desired outcomes are apparent. If that goal is not met, consideration could then be given to specific measures to bring about change in retirement practices or obligations and ensure that a comfortable retirement is within reach for all workers.

As a major player in the field of retirement planning, we are pleased to support the government's efforts to inform, assist and raise awareness, so that Quebecers can be better prepared for retirement and the burden on government can be alleviated.

Life and health insurers: working for Quebecers

Established in 1894, the Canadian Life and Health Insurance Association (CLHIA) is a voluntary trade association that represents the collective interests of Canada's life and health insurers. ACCAP-Quebec's membership consists of key players in the areas of defined contribution pension plans, simplified pension plans, group RRSPs and Voluntary Retirement Savings Plans (VRSPs), with more than $360 billion in assets under management in Canada, over 20% of which is for Quebec residents. Its members are also very active in employer-sponsored group insurance, providing coverage for supplementary health, short and long term disability and life insurance. In addition, since 1997 they have partnered with Quebec's basic prescription drug insurance plan to provide coverage for more than 4.5 million Quebecers.

Our industry employs more than 29,500 people in Quebec, of whom 14,900 are in managerial and administrative roles and 14,600 work as advisors in firms and offices all across the province. Member companies provide insurance coverage (supplementary health insurance, life insurance and disability income protection) to some 7.3 million Quebecers and paid out $17.3 billion in annuities, dividends, and health, disability and life insurance benefits to policyholders.

In 2015, $1.6 billion was collected or remitted by life and health insurers to the Quebec government in the form of taxes and other payments.

- $119 million - Corporate income tax
- $270 million - Payroll and other taxes
- $437 million - Insurance premium taxes
- $748 million - Retail sales tax

Helping people save for retirement

Life and health insurers stand as partners with the government in its commitment to protecting future generations of retirees. The products offered by our members complement the retirement income provided under public plans.

3rd level: Supplemental pension plans and personal savings (RRSPs, TFSAs and VRSPs)

- A wide range of group and individual plans
- Voluntary
- Tax incentives

2nd level: Quebec Pension Plan

- Compulsory for all workers
- Effectively managed
- Intergenerational transfer

1st level: Old Age Security and Guaranteed Income Supplement (federal)

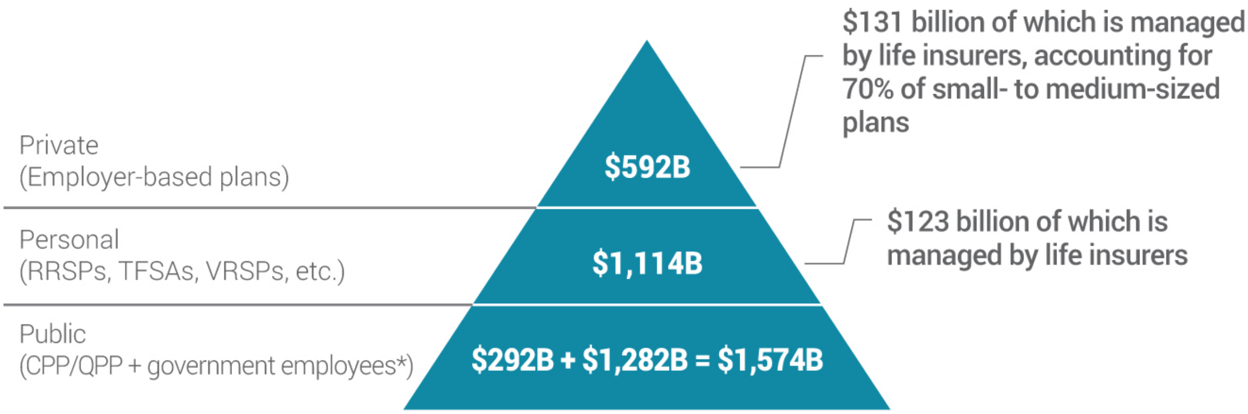
- Universal plans
- Social safety net
- Funded by taxes

When it comes to retirement, life and health insurers in Quebec:

- provide targeted solutions to help people who are less prepared
- provide retirement products to 2/3 of Quebecers
- partner with the government through their role as VRSP administrators and by offering supplemental pension plans and personal savings tools.

At the end of 2015, there were 15,900 private retirement plans in Canada and approximately 70% of them were administered by insurers. These plans are generally small and medium-size defined contribution plans and their assets amounted to more than $142 billion. Insurers also administer more than 85% of group RRSP assets in Canada ($65 billion), as well as individual RRSPs and other types of accumulating retirement annuities, for a total of $124 billion. More than 8 million Canadians participated in accumulating retirement plans or registered retirement savings plans administered by insurers at the end of 2015.

Canadian pension landscape



*This includes employees at all levels of government

Benefits paid in Canada by life and health insurers in 2015

$11.1B Life insurance benefits

$6.4 billion for death benefits

$4.7 billion to living policyholders as disability benefits, cash surrenders or dividends

$32.2B Health insurance benefits

$10.7 billion for prescription drugs accounts for **30% of national spending on drugs**

$40.9B Retirement benefits

Annuity payments on employer-sponsored and individual products increased by **63%** over the past decade

Over 90%

of benefit payments went to **living policyholders**

In Quebec alone, life and health insurers pay $320.7 million a week ($17 billion annually[1]) in various benefits, and in so doing they contribute to the health and well-being of Quebecers.

Some CLHIA member insurers have played a role in the implementation of the VRSP introduced recently by the government. This new measure makes simple, affordable and accessible retirement products available to the 2 million Quebecers who did not previously have access to a pension plan or other savings tool in the workplace. The VRSP joins the lineup of products already offered by insurers, such as RRSPs, TFSAs, defined contribution plans, simplified pension plans, group RRSPs and deferred profit sharing plans.

A plan respecting intergenerational fairness

A changed – and changing – situation

We are pleased to see the assumptions that are considered in the consultation document, the objective of which is to improve retirement income for lower-income individuals and those who find it difficult to save. As noted by the government in the document entitled *Observations on Retirement in Quebec*, the situation around pension plans and retirement savings adequacy in general has changed significantly since the introduction of the Quebec Pension Plan in 1966, and it will continue to evolve in the years ahead. In our view, it is vital that we fully understand the real issues faced by the government, and by citizens and their employers, in order to develop a response that is targeted, fair, effective and efficient. For example, potential solutions will have to take into account the effects of introducing a VRSP or other retirement plan in the workplace, and of communication initiatives designed to reach businesses to which the new requirements apply. The impact of these actions will not be measurable until some time has elapsed. With the data available, we will be in a position to estimate the number of Quebecers who will be better prepared for retirement and able to achieve a greater degree of financial independence. The result will be less reliance on government support, which will lighten the burden on government, employers and taxpayers.

According to recent studies by the firm McKinsey & Company[2] on Canada's retirement system, the existing retirement income system is effective for most Canadians and Quebecers. At least 90% of low-income individuals have access to an adequate retirement income through the Quebec Pension Plan (or Canada Pension Plan), Old Age Security and

---

[1] http://clhia.uberflip.com/i/726633-canadian-life-and-health-insurance-facts-2016-appendices/1
[2] Building on Canada's Strong Retirement Readiness, McKinsey & Company.

the Guaranteed Income Supplement. When private workplace savings plans and personal savings are added in, the proportion of modest-income individuals in that position is at least 75%. This means that at least 80% of the population is well prepared for retirement.[3]

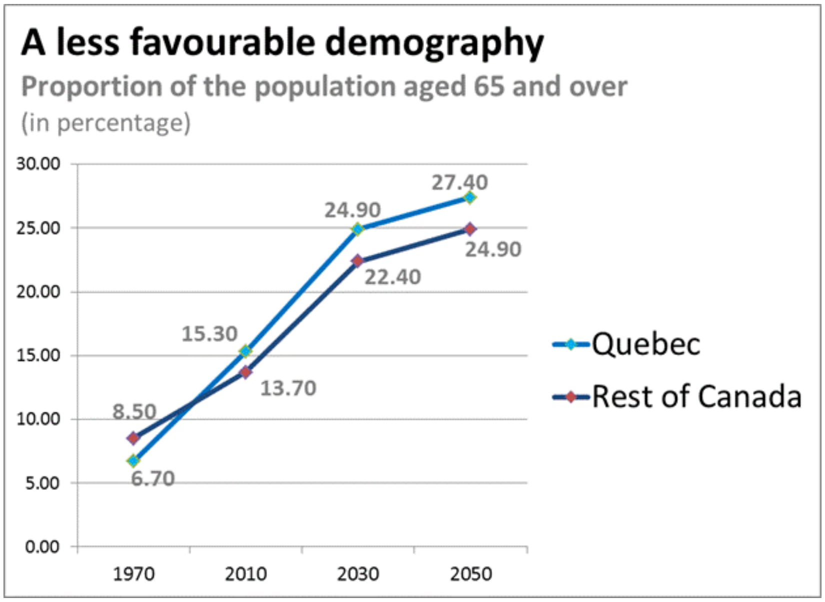
Given the government's goal of boosting savings for the portion of the population that undersaves or simply does not save at all, we are of the opinion that the right approach is one based on targeted solutions that encourage personal saving, through vehicles available in the workplace or other individual vehicles.

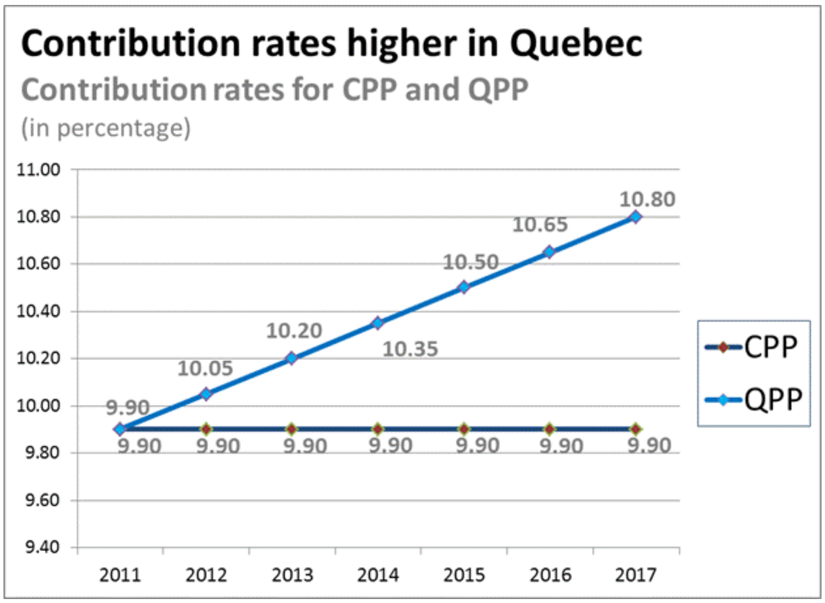
The government has observed that the retirement financial security system in place in Quebec is meeting its objectives for current generations, through the complementarity of provincial, federal and private plans. It goes on to say that this situation could change in the future as life expectancy continues to increase, imposing a higher contribution level on future generations. Indeed, the anticipated inadequacy in retirement savings resulting from the combined effect of these various factors is not unique to Quebec, but it is intensified in Quebec by the province's demographics, by an earlier average retirement age than the rest of Canada, and by lower average incomes. It is a known fact that the ratio of workers to retirees can be expected to remain lower in Quebec than elsewhere in the country. As a result, required contributions under the Quebec Pension Plan for workers and employers are and will remain higher than those required under the Canada Pension Plan for equivalent pensions. This is an additional challenge the Quebec government faces, and we applaud the work the government is doing on this issue.

As a result of Quebec's socioeconomic and demographic profile, public pension plan contributions are already higher here than elsewhere in Canada, and for that reason we recommend that the government consider these impacts in terms of maintaining private employee benefit plans, as we discuss in the next section.

---

[3] Building on Canada's Strong Retirement Readiness, McKinsey & Company.





Impact on employer costs

A study of the situation in Quebec, published in September 2000 by Amy Finkelstein of the Massachussets Institute of Technology (MIT)[4], found that when the burden of employment-related costs for businesses increases, the result is a reduction in workplace-based health insurance coverage. In economic terms, this is referred to as elasticity. When companies do not have the necessary leeway to absorb an increase in costs, they must reduce their

[4] *The effect of tax subsidies to employer-provided supplementary health insurance: evidence from Canada, Amy Finkelstein, Department of Economics, MIT, September 25, 2000.* http://economics.mit.edu/files/773

expenses in order to restore financial balance. Furthermore, as this study also notes, it is mainly small businesses that will opt to reduce employee benefits.

Any increase in the Quebec Pension Plan contribution rate will, of course, represent an additional financial load for employers. The reference document clearly outlines the situation in Quebec, where payroll taxes are already the highest in all of Canada. We fear, as does the government, that an increase in employer contributions to the Quebec Pension Plan will translate into reduced employer participation in the retirement savings tools already in place.

Furthermore, as employee benefit providers, we believe that an increase in Quebec Pension Plan contributions may lead to a reduction in other employer-sponsored programs. The various programs insurers make available through employers protect workers in Quebec in the event of illness and disability. They offer a range of supplementary health care benefits, such as dental and prescription drug coverage, and those protections could well be reduced, or even eliminated, if other employer costs are too high. If such a situation were to develop, without these workplace benefits, Quebec workers would have no choice but to turn to the public plans, such as RAMQ for prescription drugs, and the Employment Insurance program or the Quebec Pension Plan for disability, thus putting additional pressure on government finances.

It is also important to consider the situation of the province's basic prescription drug insurance plan and the surge in drug prices. We would point out that, working with RAMQ, insurance companies have been able to give Quebecers universal access to prescription drugs with the introduction of the Basic Prescription Drug Insurance Plan on January 1, 1997. Since that time approximately 60% of Quebecers have had prescription drug coverage with an ACCAP-Quebec member company. Those who do not are insured under the public component of the provincial drug plan.

As the prescription drug insurance plan enters its 20th year, our members today support some 24,500 private group insurance policies, representing $2.8 billion annually in drug claims alone. For a variety of reasons, including advances in science and medicine, the overall cost of prescription medications rises every year. This increase is absorbed by employers and their employees in their group insurance premium payments. Many employers and their employees are already facing higher costs due to the constant rise in drug prices which, despite considerable energy and effort, insurers are struggling to control. Additional pressure in the form of a jump in Quebec Pension Plan contributions could cause some employers to back away from providing health care coverage (which is usually combined with disability coverage), resulting in a substantial burden for the government.

For this reason, we are in favour of a focused and modest enhancement for those individuals who need it.

Helping individuals take greater responsibility for personal saving

We would encourage the government to stimulate personal saving wherever it is considered insufficient. The preferred approach is one that empowers individuals, as they are an integral part of a fair and healthy retirement system. We therefore support the government's view that ensuring adequate retirement income is a shared responsibility between the government, citizens and employers. One way to achieve this is to stimulate private group plans in the workplace. It should be kept in mind that for small businesses with 5 to 9 employees, the date for setting up a VRSP in their work locations will be determined by the government, but it cannot be prior to January 1, 2018. It would no doubt be worth waiting to see what the impact of this measure will be before applying any widespread increase to Quebec Pension Plan contributions for the province's employees and employers.

As we have stated before and will state again, it will be some time – probably a few years – before the impact of the requirement to implement a VRSP or some other type of group savings plan can be measured. Social change does not happen quickly, but it is vital that citizens have tools available to set such change in motion and ensure its success.

We can be proud of the fact that in Quebec, nearly all of the young people entering the workforce today will have access to a retirement savings tool. The availability of a VRSP or other savings vehicle in the workplace will make Quebec employees think about retirement when they start working and throughout their career. This, combined with the effect of financial literacy education, is highly promising for the future.

These considerations should be taken into account in the government's decision-making process around the Quebec Pension Plan at the conclusion of these consultations. It will also be necessary to put tools in place for monitoring the performance of VRSPs, with special emphasis on the number of workers who have joined their employer-sponsored retirement program. With that data, it will then be possible to identify avenues for future action based on the number of Quebec workers who are saving.

Structural measures for ensuring the sustainability of the Quebec Pension Plan

Recent amendments were made to the Canada Pension Plan (CPP). These measures were passed in December 2016 and will be phased in gradually. The changes are intended to modernize the Canada Pension Plan, but as the government itself states, if these same changes were to be made to the Quebec Pension Plan, it would result in Quebec contributors being required to pay more than contributors elsewhere in Canada. It is for this reason that we suggest taking an approach that is tailored to our reality. Furthermore, indexing should reflect that which is found in Quebec and not in Canada as a whole. At the same time, costs will have to be carefully controlled in order to preserve these gains.

The CLHIA is in favour of targeted solutions founded on the principles of effectiveness, fairness and efficiency in proportion to each stakeholder's ability to pay.

Conclusion

We believe that a healthy, fair and efficient retirement system depends on the participation both of the government and of individuals and their employers. This model must take into consideration each party's ability to pay, in the context of the bigger picture, so that potential negative outcomes can be identified. It is also important to ensure that investors have the flexibility and latitude to make individual choices.

More specifically, a distinction must be made between financial security and standard of living in retirement. Financial security is in part the responsibility of the government, which has a duty to support and to ensure that no portion of the population is left behind and that the system does not create inequity. That support must be preserved and it must be sustainable.

On the other hand, standard of living in retirement is more a function of individual choice and responsibility. When the Quebec Pension Plan came into being, the average retirement age was 65[5] and a man age 65 or over (the workforce was predominantly male) could expect to live to around age 78.[6] In 2014, the average retirement age in Quebec was 62[7]

---

[5] d'Amour, Albas. (2013), *Innovating for a Sustainable Retirement System* [http://www.rrq.gouv.qc.ca/SiteCollectionDocuments/www.rrq.gouv.qc/Anglais/publications/rapport_comite/rapport.pdf], p. 75, (accessed January 13, 2017).

[6] Montreal Economic Institute (2007), *The retirement age in Quebec: A worrying situation*, [http://www.iedm.org/files/juin07_en_0.pdf], p. 4, (accessed January 13, 2017).

[7] Government of Quebec (2016), Strengthening the Plan to Promote Greater Intergenerational Fairness, [http://www.rrq.gouv.qc.ca/SiteCollectionDocuments/www.rrq.gouv.qc/Anglais/publications/regime_rentes/consultation_publique/1924a-strengthening-the-plan.pdf], p. 25, (accessed January 13, 2017).

and a man over the age of 65 could expect to live to around 84, while a woman over 65 could expect to live to 87.[8] It is therefore not unrealistic to think that workers will have to provide for their needs without an employment income for periods of 20, 25 and even 30 years. Each of us must make choices during our working life with regard to what we hope to do and how we want to live when we leave the workforce.

Investors must be encouraged to take a new, long-term view. Economic and financial education is one promising way forward. The opportunity to save in the workplace and set some money aside for our later years, combined with increased awareness among Quebecers, will most certainly bring about a change in attitude on the matter of retirement.

Our association's member companies are making significant efforts to ensure that future retirees are better informed about the importance of saving. Information, awareness and putting the message into plain language are the priorities here. In that regard, our efforts, together with yours, will demonstrate once again the importance of our partnership.

[8] Institut de la statistique Québec, *Espérance de vie à la naissance et à 65 ans selon le sexe, Québec 1975-1977 à 2015* [http://www.stat.gouv.qc.ca/statistiques/population-demographie/deces-mortalite/4p1.htm], (accessed January 13, 2017).

SUMMARY QUESTIONS IN PREPARATION FOR THE PARLIAMENTARY COMMITTEE

Axis 1 A Plan respecting intergenerational fairness

- *Given the current system of financial security in retirement and the changes it will undergo, are you in favour of maintaining the status quo or of improving retirement income for young workers?*

  The CLHIA is in favour of targeted solutions founded on the principles of effectiveness, fairness, efficiency and support for the economy. In that regard, the CLHIA recommends avoiding forced oversaving, allowing flexibility of choice in financial matters, not increasing the burden on businesses and limiting the impact on labour costs.

  On page 18 of the consultation document, it states that the "CPP scenario" would require Quebec contributors to pay more than contributors elsewhere in Canada to guarantee the same monthly pension amount.

  These changes might not be in line with the ability to pay of workers and employers in Quebec. As stated above, to avoid an increase in costs, businesses that offer a private retirement savings plan will tend to voluntarily decrease their contributions, which will cancel out any efforts to increase personal savings. As we see on page 19 of the consultation document, for businesses that do not offer a private plan, the result may be a salary adjustment. However, all businesses with 5 employees or more will have a pension plan or retirement savings plan eventually, whether it is a VRSP, a group RRSP, a TFSA or a simplified pension plan. Although not all businesses make contributions to these vehicles, caution must still be exercised. Lastly, employers may also rethink plans to maintain or expand their employee benefit programs, which would lead to undesirable outcomes.

- *If the enhancement of the system of financial security at retirement were favoured, what would be the optimal approach for increasing the retirement income of future generations and the approach to adopt with regard to the different income categories?*

  All measures aimed at improving the situation for future retirees matter to us, and that is why we will support any policies that will help the largest possible number of citizens to have financial security for retirement.

That said, a distinction must be made between improving the financial situation of Quebecers in retirement and their financial security. The concern of the Quebec government must be for the financial security of Quebecers, to ensure that they do not have to live in poverty in retirement. On the other hand, the level of income required for a comfortable retirement is a matter of individual decision. The government can make sure that Quebecers have available all the tools they need to save for their retirement, but the required level of income should not be imposed.

Axis 2 Structural measures for the sustainability of the Plan

With regard to adapting the Plan to its socioeconomic and demographic environment

- *Are you in favour of the proposed changes to QPP disability benefits?*

  The CLHIA supports any change the objective of which is to provide the required benefits to those who need them, in a fair, effective and efficient manner in proportion to each stakeholder's ability to pay.

- *Are you in favour of the proposed changes to QPP survivors' benefits?*

  The CLHIA supports any change the objective of which is to provide the required benefits to those who need them, in a fair, effective and efficient manner in proportion to each stakeholder's ability to pay.

  Women's participation in the workforce has changed dramatically since 1966, when the Quebec Pension Plan started, and the reasons for introducing the surviving spouse's pension should probably be reviewed. Reflecting these changes would contribute to greater intergenerational fairness.

- *Are you in favour of an increase in the minimum age of eligibility for early retirement pensionsunder the QPP as a solution to the demographic and socioeconomic challenges and with theobjective of strengthening the Plan's sustainability?*

  Once again, the CLHIA supports any change the objective of which is to provide the required benefits to those who need them, in a fair, effective and efficient manner in proportion to each stakeholder's ability to pay.

- *Do you have other suggestions on how to adapt the QPP's various pensions and benefits?*

  The Quebec Pension Plan was instituted to ensure a minimum income in retirement. It represents the second of the three levels that make up Quebec's retirement financial security system. Level three is where we find private savings. The focus needs to be on independence through financial education in this digital age. Indeed, the increased emphasis on financial literacy will have the effect of raising awareness among Quebecers of their responsibility to save for their retirement. Like us[9], the Autorité des marchés financiers has already taken action, rolling out a program in 2016 especially for millennials. The government, for its part, has announced the return of financial education to our schools starting in the fall of 2017, a measure that we support wholeheartedly. Our industry is also contributing to these education efforts with the launch in November 2016 of a website that deals exclusively with retirement readiness[10]. Considering all these various communication and education initiatives, coupled with the timing of VRSP implementation maturity, there is no question that the importance of saving for retirement will be firmly rooted in the minds of Quebecers.

With regard to ensuring a stable, sustainable rate of contribution to the Plan

- *Are you in favour of full funding of improvements to the QPP, as is the case for the CPP?*

  As this matter is not within our purview, life and health insurance companies cannot comment on this question.

- *Are you in favour of introducing a longevity factor for the QPP?*

  Once again, the CLHIA supports any change the objective of which is to provide the required benefits to those who need them, in a fair, effective and efficient manner in proportion to each stakeholder's ability to pay. We endorse any measures that promote resource optimization and better cost control, to both preserve the existing plan and support those who need it. The concept as described in the consultation document should probably be fleshed out in greater detail, so that we can more fully understand its

[9] On the campaign's interactive website www.notimelikenow.ca, visitors can find answers to common questions about life insurance, calculate how much insurance they would need in order to provide for their survivors, and access insurance company websites directly to compare offerings. This site is an initiative of the CLHIA and is intended especially for millennials.

[10] People planning to retire within the next year or so now have access to a new one-stop resource called Retiring Soon? that will help with answering some of their key questions as they prepare to leave the workforce.

impact in terms of intergenerational fairness and on persons who are retired or nearing retirement.

- *Are you in favour of indexing current pensions to inflation in Québec?*

  Once again, the CLHIA supports any change the objective of which is to provide the required benefits to those who need them, in a fair, effective and efficient manner in proportion to each stakeholder's ability to pay. From that perspective, it would make sense to apply Quebec indexing and not aim for Canadian levels.

- *Do you have other suggestions on how to ensure the stability of QPP contribution rates?*

Improve private offerings instead of expanding public plans

Since the late 1960s, the structure of the pension system has resembled a three-story house, with the Canadian Old Age Security and Guaranteed Income Supplement at its base, the compulsory Quebec Pension Plan at the second level, and then group retirement savings plans and personal retirement savings at the third level. There is great concern today about the accessibility of pension plans for workers and the adequacy of their retirement savings, due in part to the significant rise in life expectancy.

It would be difficult for the government to support the financial cost of expanding the public plans, and it is not easy to identify and implement consistent solutions that are national in scope without generating substantial costs.

We are of the opinion that with certain measures aimed at allowing private offerings to bring forth simple and affordable solutions, accessibility would be broadened and more Quebecers would be encouraged to save for their retirement. We believe this solution would be preferable to an enhancement of our compulsory public plans. The VRSP is just one example that comes to mind.

It is important that any measures taken by the government be focused so as to meet the needs of those who require increased protection and ensure that there is still the necessary leeway for individual choices.

Also important is fostering long-term behavioural change. Economic and financial education is a valuable tool. Making a retirement savings tool accessible to all workers in Quebec is certainly one factor that will help to change behaviours and raise awareness about the need to plan for this extended period in life when a regular employment income is no longer available. It is our hope that today’s young people, who will receive financial education at school and will all have access to a pension plan or retirement savings tool in the workplace, will show behaviours that are very different from those of previous generations, who lived and worked in a specific social, demographic and economic context.

In other words, what matters to us is any measure that will help Quebec taxpayers to enjoy retirement free from financial and health worries, and that is why we encourage the government to pursue that objective, in light of all available knowledge and data.