The background features a dark blue gradient with a subtle pattern of white dots. On the left side, there are several overlapping circular elements. A prominent one is a large circle with a scale around its perimeter, marked with numbers from 140 to 260 in increments of 10. Other circles are partially visible, some with dashed lines and arrows, suggesting a technical or scientific theme.

WHY IS QUÉBEC CONSIDERING AN ALTERNATIVE?

PIERRE-CARL MICHAUD

HEC MONTRÉAL

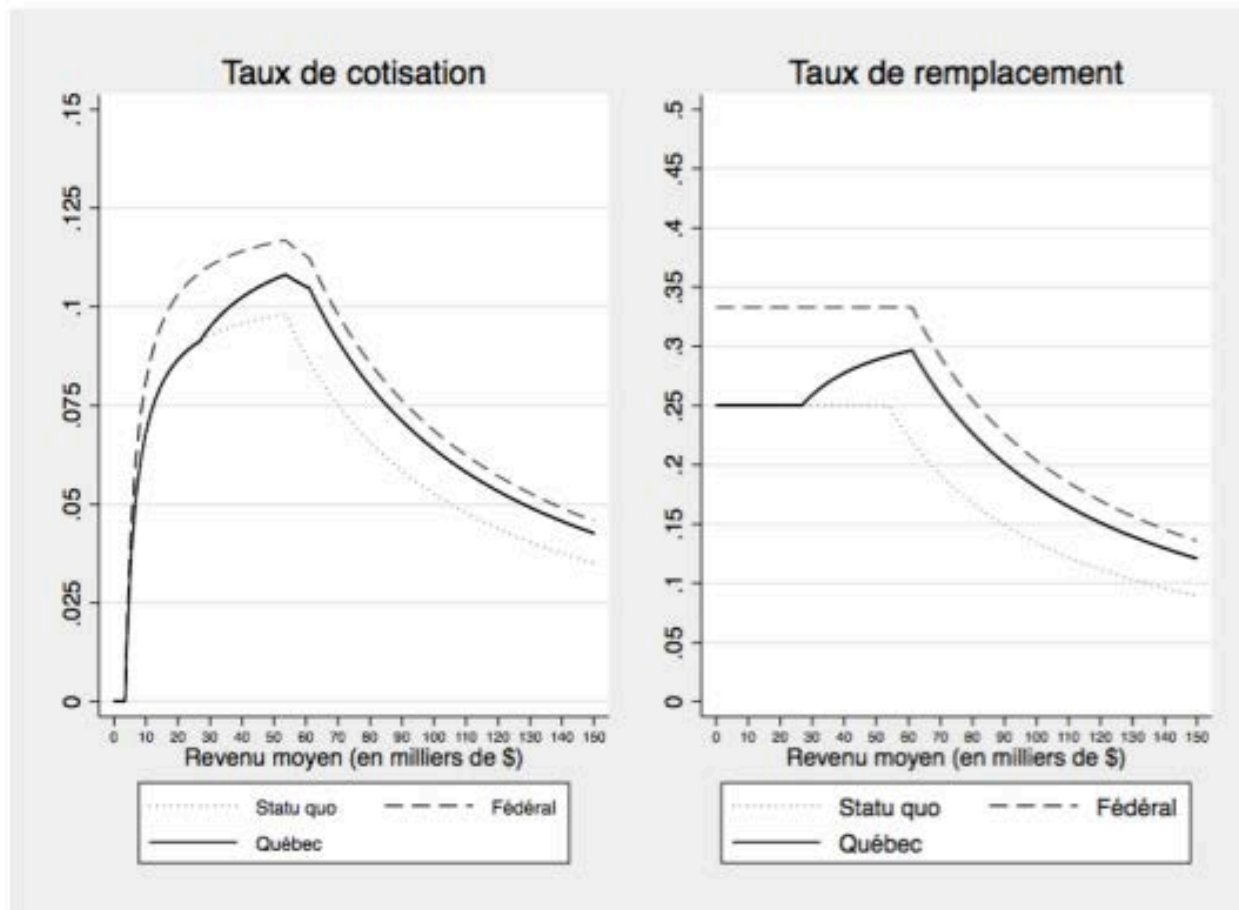
THE POLICY CASE

- What's the diagnosis?
 - Low income replacement rates in future for middle class workers with no RPP
 - Disincentives to save (and work) for low earners due to GIS clawback
- How did we get there?
 - CPP/QPP was never generous, built on top of OAS and GIS
 - Similar to UK with SERPS being built on top of Basic Pension
 - Integrated with RPPs
- What could the doctor prescribe?
 - **QPP/ CPP reform**
 - PRPP (RVER in Quebec)
 - OAS-GIS reform

WHAT ARE THE POTENTIAL DRAWBACKS OF FEDERAL PROPOSAL?

- Addressing a targeted problem with a full-expansion of CPP
- Forcing contributions for low and high income workers
 - Low income workers: replacement rate well over 90% already
 - High income workers: does QPP/ CPP provide best return and flexibility for them?
- GIS clawback means low returns for low income workers:
 - Uses the WITB, a program which is not part of the retirement system, to patch
 - Financed intertemporally by GIS savings in the future

THE QUEBEC PROPOSAL



- Exempt new contributions on earnings below half YMPE
- Avoids the low income targeting and GIS problems
- Implies more modest expansion of CPP

COMPARISONS OF TWO PROPOSALS



- Microsim approach
- Account for tax implications of both proposals
- Compute lifetime effects:
 - Net present value (at effective rate of return on TFSA (3%) + annuity, roughly 2.5%)
 - Internal rate of return

NET PRESENT VALUE: EFFECTS FOR WORKER AGE 25

Avg Income	Reform	QPP [C]	QPP [B]	GIS	WITB	Disp. Income	IRR
20000	Federal	4682	11213	-3966	1755	571	4.4
	QC	557	1157	-346	0	94	2.8
40000	Federal	9105	19887	-3122	488	2147	3.2
	QC	3038	6109	-991	0	368	2.8
80000	Federal	18303	37488	-142	12	8032	3.5
	QC	11124	21753	-195	0	4322	3.4

Net present value reported using 2.5% real discount rate (TFSA + annuity). Internal rate of return accounts for new QPP formula and taxes. High school diploma males.

NET PRESENT VALUE: EFFECTS FOR WORKER AGE 25

Avg Income	Reform	QPP [C]	QPP [B]	GIS	WITB	Disp. Income	IRR
20000	Federal	4682	11213	-3966	1755	571	4.4
	QC	557	1157	-346	0	94	2.8
40000	Federal	9105	19887	-3122	488	2147	3.2
	QC	3038	6109	-991	0	368	2.8
80000	Federal	18303	37488	-181	12	8032	3.5
	QC	11124	21753	-142	0	4822	3.4

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20000	Federal	4682	11213	-3966	1755	571	4.4
	QC	557	1157	-346	0	94	2.8
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Avg Income	Reform	QPP [C]	QPP [B]	GIS	WITB	Disp. Income	IRR
20000	Federal	4682	11213	-3966	1755	2371	4.3
	QC	557	1157	-346	0	94	2.8
40000	Federal	9105	19887	-3122	488	2147	3.2
	QC	3038	6109	-991	0	368	2.8
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40000	Federal	9105	19887	-3122	488	2147	3.2
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Net present value reported using 2.5% real discount rate (TFSA + annuity). Internal rate of return accounts for new QPP formula and taxes. High school diploma males.

ARE BOTH PROPOSALS REACHING THE POLICY OBJECTIVE?

- Not really ...
- Federal:
 - hits everyone, burden on employers
 - provides low rates of return for low earners solely from retirement system
 - patch with program not intended as part of pension system
- Provincial:
 - modest increase for intended group
 - more pressure on RVER (PRPP) to meet its objectives
- Opportunity missed: Discussion over GIS-OAS vs. QPP/ CPP mix