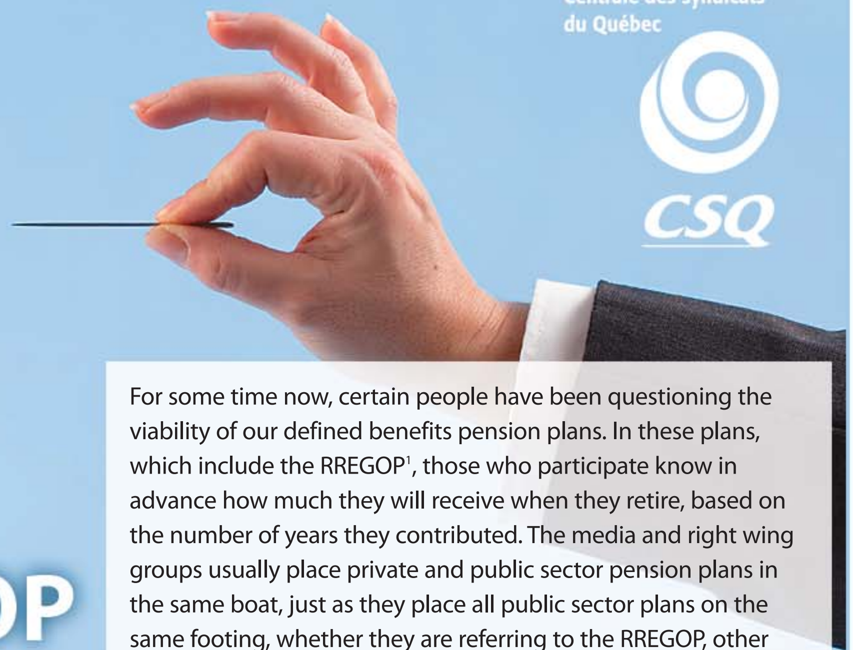

RREGOP
MYTHS AND REALITIES

For some time now, certain people have been questioning the viability of our defined benefits pension plans. In these plans, which include the RREGOP[1], those who participate know in advance how much they will receive when they retire, based on the number of years they contributed. The media and right wing groups usually place private and public sector pension plans in the same boat, just as they place all public sector plans on the same footing, whether they are referring to the RREGOP, other government pension plans (for administrators, judges, Sûreté du Québec, etc.), or federal or municipal plans.

Even though there are huge differences between these plans, the media and the discourse of groups on the right that drive the media fail to convey the essential nuances. Instead, they attempt to arouse the jealousy and resentment of the public towards public sector employees, people who work in the fields of education and health and social services.

To help you respond to your brother-in-law or neighbour who works in the private sector, here are some of the distinctions they should be made aware of. Let's use hard facts to confront head-on some of the myths and prejudices promulgated by the media.

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SUMMARY

1 RREGOP: Régime de retraite des employés du gouvernement et des organismes publics.

MYTH NO. 1:
RREGOP IS BANKRUPT!

RREGOP is on the brink of bankruptcy and there will be no money left in the fund when it's time for people who are now young to retire!

Reality

FALSE Measures to ensure the long-term funding of RREGOP were taken in the last round of public sector negotiations, which ended in July 2010. Difficult but responsible decisions were made. For example, the **rate of contributions** which was set at 8.19% in 2010 will climb to 8.69% in 2011, and then to 8.94% in 2012. It will then rise to 9.18% in 2013, adjustments which amount to a **12% increase in three years**.

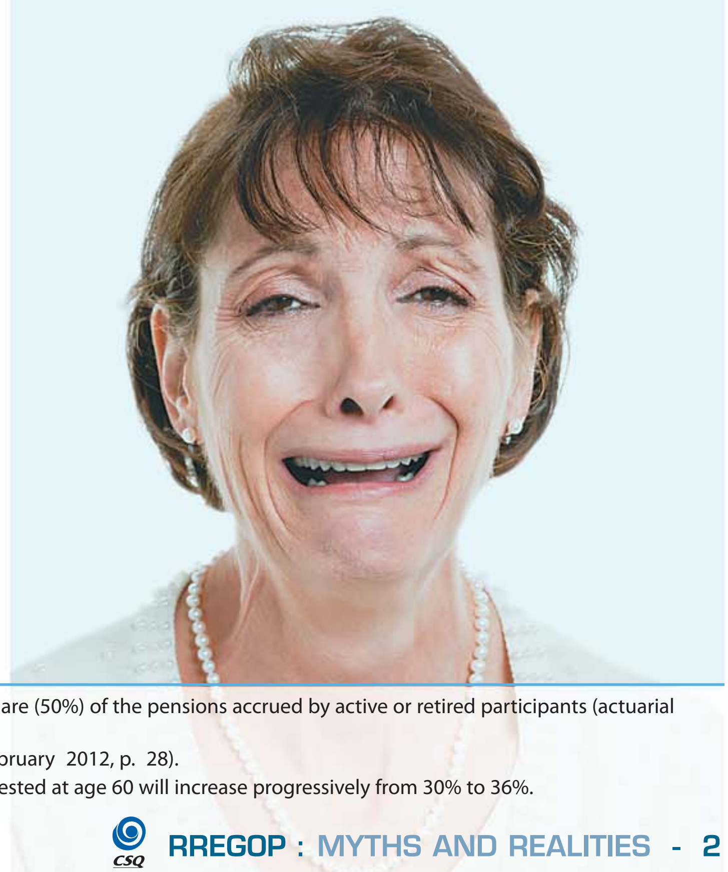
The funds of participating RREGOP contributors are capitalized at around 103%[2] and those of the government at around 56%[3], representing a global capitalization of around 80%. This percentage corresponds to the threshold generally considered to be acceptable. **The long-term financial health of the RREGOP is more than adequately secure**.

MYTH NO. 2:
TRAVAILLER JUSQU'À 75 ANS !

You have to work up to age 75 to receive a decent pension from the RREGOP!

Reality

FALSE During the last round of public and parapublic negotiations, the previously mentioned difficult decisions (see Myth no. 1) were rightly taken in order to preserve the current requirements for pension eligibility. Instead of penalizing those who retire early, as will the Quebec Pension Plan (QPP) beginning in 2014[4], **the government and the unions** who form the Common Front **agreed** to offer a **positive incentive for people** to **postpone their retirements**. It is now possible to accumulate up to 38 years of service instead of 35 which can be used to determine pension benefits (maximum of 76% instead of 70%), while preserving the right to retire without penalty after 35 years of service with a pension of 70%. Finally, not only was pension eligibility without reduction at age 60 preserved intact, there was not a hint of a suggestion from the government to change the status quo.



2 The fund of participating people contains 3% more than required to pay its share (50%) of the pensions accrued by active or retired participants (actuarial evaluation of the RREGOP updated on December 31, 2010).

3 Figures provided by Bernard Turgeon of the Ministry of Finance (*L'actualité*, February 2012, p. 28).

4 Between 2014 and 2016, the maximum actuarial reduction for a pension requested at age 60 will increase progressively from 30% to 36%.

MYTH NO. 3:
A "PLATINUM" PENSION PLAN!

RREGOP is a pension plan which is so "platinum" that it is unfair to the rest of the public!

Reality

FALSE RREGOP is a responsible pension plan that maintains a balance between the benefits paid out to participants and the capacities of both the participants and the Quebec government to fund the plan. We believe that the plan is very interesting and rewarding but this doesn't make it unfair to other workers in Quebec. Let's base our judgment on the facts and consider the main characteristics of RREGOP:

- **Equal sharing of costs (50-50)** between participants and the government (compared to employer contributions of 60%, 65% or 70% in many other plans, even in the private sector!);
- **Retirement requirements of 35 years of service or 60 years of age without actuarial reduction** (compared to many other plans which allow retirement after 30 years of service or with a "factor" combining age and years of service);
- **Accumulation of 2% of annual salary per year of service** (compared to other plans which often go as high as 2.5% per year);
- **Partial indexation only**;
- **Participant contribution rate of 8.94% in 2012 and 9.18% in 2013** (higher than most plans, even in the private sector, whose rates are often only 5% or 6%).

MYTH NO. 4: A GOLDEN RETIREMENT!

All public sector pensioners enjoy a "golden retirement"!

Reality

FALSE This myth is essentially based on the falsehood propagated by the media that all public sector employees are paid inflated salaries and that workers with job security work their entire careers in the public sector (ministries) or the parapublic sector (health and education sector). Here are the facts:

- **Public sector employees** earned an "amazing" **average salary of $47,400 in 2011**[5] (or **1.9% less** than the maximum eligible earnings of $48,300 established by the QPP for 2011, a figure which represents the average annual salary of **all jobs in Canada**);
- According to the Institut de la statistique du Québec (ISQ), a neutral and independent government organization, **salaries for comparable jobs in 2011 were 8.3% lower in the public and parapublic sectors than in the private sector**[6];
- According to the ISQ, in 2011, the "fabulous" **public and parapublic fringe benefits** so maligned in the media simply allow public workers to achieve **parity with private sector workers** in terms of global remuneration (salary and all fringe benefits such as pension plans, insurance, vacation, etc.)[7];
- **Only 48% of government employees hold a regular full-time job**, 16% hold regular part-time jobs and **36%** hold **unsecure jobs**[8] (a long way from the lifetime job security that all public sector employees are said to enjoy!);
- In 2010, the "golden retirement" of **RREGOP pensioners** achieved the "astronomical" **average** height of **$17,767 per year**[9] (*Wow*! Worthy of hockey players!).

5 Based on data from the Treasury Board's Système d'information sur la rémunération (S.I.R.).
6 INSTITUT DE LA STATISTIQUE DU QUÉBEC (2011). *Rémunération des salariés. État et évolution comparés*, p. 9.
7 *Ibid.*, p. 9.
8 Based on data from the Treasury Board's S.I.R.
9 CARRA. *Rapport annuel de gestion 2010*, p. 75.

MYTH NO. 5:

75 BILLION DOLLARS OF DEBT!

The government owes 75 billion dollars to its pension plans, a debt that must be born by all taxpayers!

R e a l i t y

FALSE The **75 billion dollars**[10] that we've heard so much about in recent months is **not a debt but a liability**, that is to say the amount representing the government's commitments to all current and retired employees. These are also referred to as matured annuities. For RREGOP specifically, this government liability is around $41.5 billion[11]. However, a government fund known as the FARR already contains around $23.4 billion. So it is only the difference between the liability and money already set aside, around $18.1 billion, which remains to be financed[12].

Contrary to what the media would like us to believe, this $18.1 billion is not an amount that needs to be paid tomorrow morning! Rather, these are sums not yet accumulated in a fund which eventually **will be paid to all present and future** RREGOP pensioners, but only over a period of many decades. It is nothing less than demagogic to insinuate that these amounts constitute an unsustainable debt which will bankrupt the Quebec government. Pension benefits are an integral part of the worker's total compensation package and represent deferred salary. To qualify these sums as debts i**s like including in today's debt all of the salaries that will need to be paid to public sector employees between 2013 and 2050!**

MYTH NO. 6:

BANKRUPT JUST LIKE GREECE!

We absolutely need to reduce "luxurious" RREGOP benefits to prevent Quebec from going bankrupt just like Greece!

R e a l i t y

FALSE First, remember that the **RREGOP is not in financial difficulty** and that its costs are far from astronomical, being simply proportional to the total payroll of public employees (see Myths no. 1 and 5). It is not a "luxurious" plan and **most of the solutions** required to improve the state of pension plans experiencing a period of difficulties **have already been adopted by RREGOP**, some quite some time ago (see Myth no. 3).

This claim that the **debt** related to RREGOP is **out of control,** that it is **skyrocketing**, and that it will eventually **bankrupt** the government is probably **the worst and most exaggerated falsehood** being spread by the media. In fact, the **net liabilities** of all Quebec government pension plans represented **21.8% of the gross domestic product (GDP) in 1997-1998,** but only **9% of the GDP in 2011-2012**[13]. In other words, the relative burden of the government's commitments to its pension plans (net liabilities) compared to the collective wealth (GDP) **is not increasing, but actually decreasing!** Is this what they call heading straight towards bankruptcy?

10 QUÉBEC, MINISTÈRE DES FINANCES (2010-2011). *États financiers consolidés du gouvernement du Québec*, p. 95.
11-12 *Ibid.*, p. 95.
13 QUÉBEC, MINISTÈRE DES FINANCES (2011-2012). *Plan budgétaire 2011-2012, Section I*, p. 15.

MYTH NO. 7: **PENSIONS PAID BY TAXPAYERS!**

It's not fair that taxpayers have to pay for the pensions of public sector employees when most of them don't even have a pension plan of their own!

Reality

FALSE Remember, **retirement pensions** are part of the **total compensation package** paid to public sector workers and are actually **deferred wages**. They are not an unearned privilege or a gift, but one **portion of their legitimately earned salary**. This sense of unfairness is created by the media which suggests that government employees are overpaid and that is "immoral" that these "fabulous" salaries are partially funded with taxes collected from workers earning minimum wage. If we follow this argument to its logical end, in fairness to all workers with modest incomes, we should **pay all public and parapublic sector employees minimum wage (or perhaps even less, while we're at it!)**, whether they be orderlies, teachers, secretaries, nurses, janitors or psychologists!

This myth seems to suggest that the **RREGOP** is **free** for public sector workers. **Nothing could be further from the truth!** In 2012, for example, an employee earning **$45,000** will have to pay more than **$2,500** in contributions!

And don't forget that **public sector employees pay taxes too**. **In addition to their own contributions**, with the taxes they pay, **they assume the cost of around 13% of the government's contribution** to their pension plan. It's as if they are paying twice! Perhaps this is what we should consider unfair.

We need not feel ashamed that we have a good pension plan. Instead, we believe that **everyone should enjoy financial benefits equal or close** to those offered by RREGOP when it's their turn to retire. This is why the CSQ, in concert with the other union organizations, will continue to advocate for a decent retirement income for everyone.

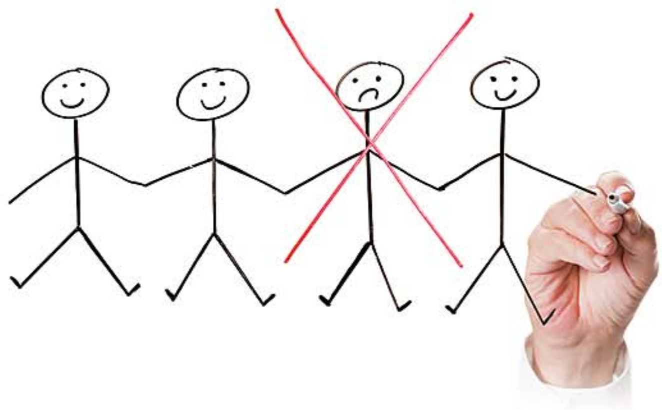
Attacking those who benefit from good pensions, as groups on the right and the media do, will not magically improve conditions for other people! **Instead of stirring up jealousy** among those who don't have pension plans for those who do, it would be more socially useful to **raise awareness of the importance of contributing to an RSSP** or any other retirement investment. And to continue to **encourage the creation of more private pension plans**, especially definite benefits plans..

MYTH NO. 8: **THE GOVERNMENT HAS TO COVER ALL DEFICITS!**

Deficits and any other risks associated with RREGOP are the sole responsibility of the government, and therefore taxpayers!

Reality

FALSE Since 1982, the **costs of RREGOP** have been shared **equally (50-50)** between the government and participants in the plan. When yields are not so good, **participants bear the consequences** as much as the government. This is why participants have begun to pay more, the rate of contributions increasing from 8.19% in 2010 to 8.69% in 2011, then to 8.94% in 2012. **It will then rise to 9.18% in 2013, an increase of 12% in three years**. And yet due to misunderstanding or sheer bad faith, many journalists, analysts, commentators or so-called experts who work for right wing organizations continue to flood the media with the myth that the government assumes the costs of poor yields on our investments.



MYTH NO. 9:
UNJUSTIFIABLE PRIVILEGE!

In these times, a pension guaranteed for life is an unjustifiable privilege bestowed on public sector workers by the State!

R e a l i t y

FALSE As a defined benefits pension plan, the RREGOP is simply a plan that guarantees a pension based on what the participant contributed in order to qualify, along with her employer (the government) who contributed the same amount or committed to contribute the same amount.

What is scandalous about guaranteeing a pension for a person who, with her employer, has paid for this pension, a pension which is part of her total compensation package? **The contrary would be scandalous! The contrary would be tantamount to stealing a portion of the wages due to her**, which she earned with her own labour throughout her entire career and which **she agreed to defer in exchange for this promise of a pension when she retires**. It would be like the employer of your brother-in-law or your neighbour who has no pension plan demanding that they **pay back part of the salary they earned in the 1990s because the company is doing poorly in the 2010s**!

MYTH NO. 10:
DEFINED BENEFITS PLANS WILL DISAPPEAR!

Defined benefits plans are no longer viable and are doomed to disappear!

R e a l i t y

FALSE According the **Dominion Bond Rating Service (DBRS)**, which examined the 479 most important defined benefits pension plans in North America, these funds have almost completely bounced back to where they were before the 2008 crisis and **most are in relatively good health**[14]. As previously mentioned, **the RREGOP is itself in very good health** (see Myth no. 1).

With respect to private or public sector pension plans suffering from underfunding, this is often the result of **employers who were allowed to neglect to pay their share of contributions** during periods when yields were good, **instead of being smart and accumulating a surplus** for the inevitable rainy days. When the 2008 storm arose, employers tried to shirk all of the blame and burden onto the workers, those who had never stopped paying their contributions, even during periods of poor yields.

However, **the fact that mistakes were made does not mean that it is impossible to learn from these mistakes and make the required adjustments**. We are convinced that with good faith on both sides, employers and workers can, in most cases, solve the problems of pension plans that are experiencing difficulties. And we must not forget that **evaluating the investment yields** and the health of a pension plan should be based on **extensive periods (30 or 40 years)**, not on short periods of poor results. This is the spirit in which we must work and go even further to **encourage the creation new definite benefits pensions plans**, because these plans are still the **best way to provide a decent retirement to the greatest number of people**.

14 *L'actualité*, February 2012, p. 39.

MYTH NO. 11: **DEFINED CONTRIBUTIONS PLANS FOR EVERYONE!**

It would be fairer to taxpayers if we changed public sector pension plans to DEFINED CONTRIBUTIONS plans!

Reality

FALSE Let's clarify some points about the media's and employer associations' sudden interest in **defined contributions** pension plans. These plans are a sort of **group RRSP** scheme into which both the employer and workers contribute. Yields on investments are obviously impossible to predict, but what is most troubling is that the **amount of retirement income remains completely unknown until the day it is taken**.

In fact, the value of the benefits that a person can purchase from a financial institution will depend not only on the returns realized from the contributions she and her employer make, but also on the interest rates in effect at the precise moment that she retires. If the plan is experiencing **negative returns and low interest rates** just before she retires, the results could be catastrophic, after having **invested in her pension plan throughout her entire career**.

In other words, two people working in the same organization for their entire careers and having paid the exact same amount of contributions could receive **completely different pensions** due to the simple circumstance of retiring **six months or one year apart. A veritable lottery!**

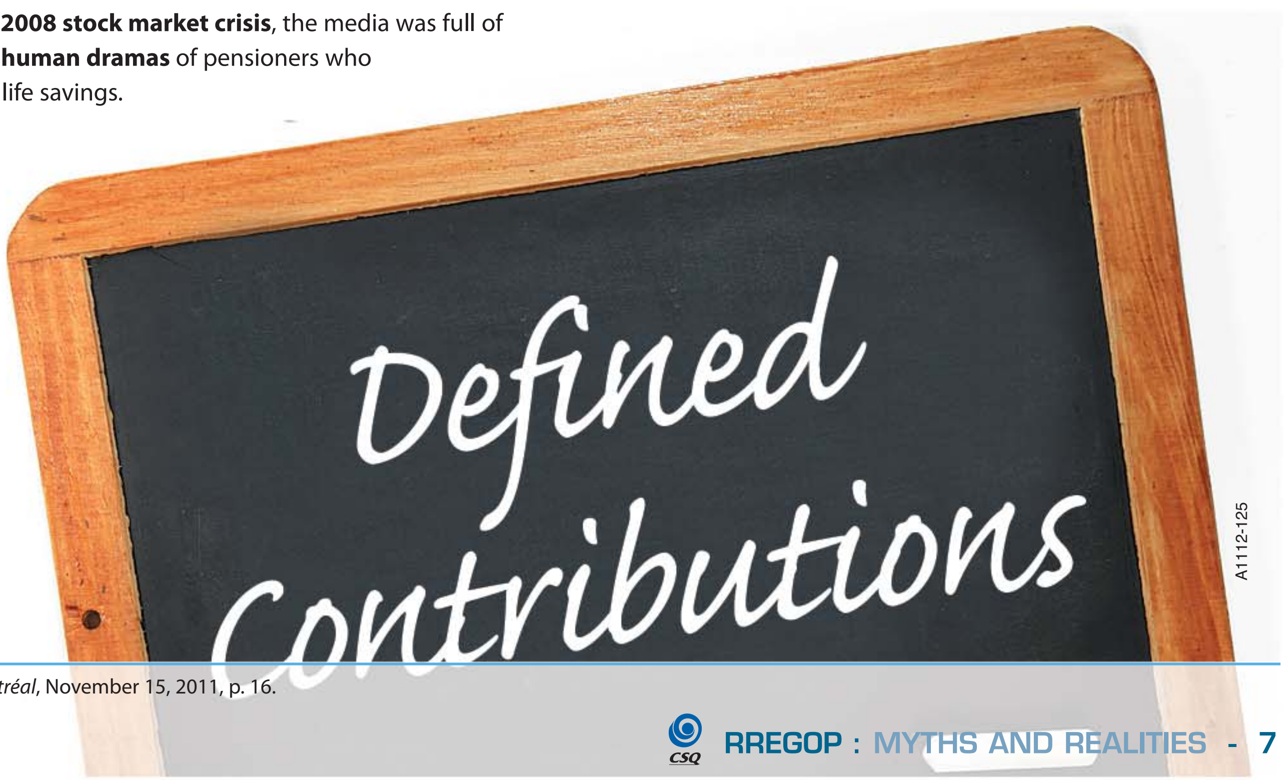
This is the uncertainty that those who participate in **defined contributions** plans, as well as those who invest in RRSPs, are faced with. During the **2008 stock market crisis**, the media was full of stories about the **human dramas** of pensioners who lost most of their life savings.

Who was not moved to see these older people **forced to return to work in order to survive?**

Nowadays, **defined benefits plans** are considered to be a calamity which needs to be abolished. This sort of plan would subject all workers, including those in the private sector participating in a definite benefits plan, **to the vagaries of financial markets** while relieving **employers of any responsibility**, in both the public and private sectors. **Whose interests are being served here?** Those of the public or those of the employers?

The result would be an increase in the number of retired people with insufficient incomes forced to apply for social assistance programs such as the federal government's Guaranteed Income Supplement. The **government savings** that employers might hope to achieve by abolishing definite contributions pension plans would be **wiped out by increased government spending for social programs**!

We'll conclude with a quote from Pierre Turgeon, spokesperson for the QPP: "**The problem is not group pension plans. It's the fact that so many Quebecers don't have one**[15]."



15 *Journal de Montréal*, November 15, 2011, p. 16.