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SPECIAL ISSUE

PENSION PLANS

A comparative analysis of the costs and benefits of the RRE and the RREGOP

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COMPARATIVE ANALYSIS OF COSTS AND BENEFITS
RRE -vs- RREGOP

INTRODUCTION

The FNEEQ has come back to this question several times in the last few years and has recommended that the vast majority of its members change from the RRE (Régime de Retraite des Enseignants — Teachers Pension Plan) to the RREGOP (Régime de Retraite des Employés du Gouvernement et des Organismes Publics — Pension Plan for Civil Servants and Public Sector Employees) every time.

A Federal Council document released in May 1979, "RRE: a boat set adrift' and completed in a Federal Council Service report in September 1980 makes this quite clear.

It is important to discuss this issue once more for several reasons:

1) Althouth we lack precise statistics, we know that a large number of members should have, and should still transfer their pension plans and yet have not done so.

2) New laws passed by the government (15, 68 and 93) have changed the rules of the game considerably, so that the few weak advantages that the RRE once had when compared to the RREGOP have almost totally disappeared.

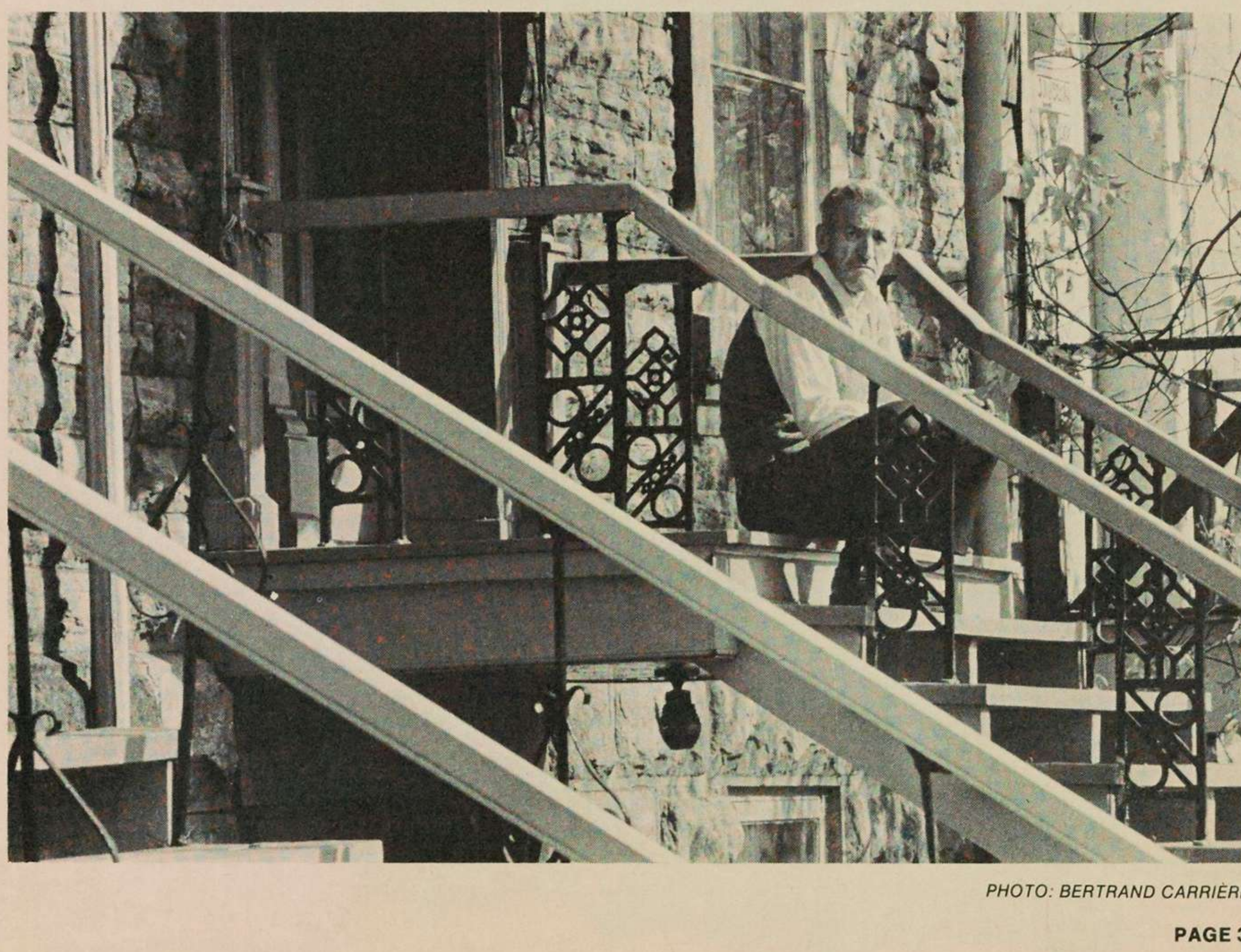


PHOTO: BERTRAND CARRIÈRE

SECTION ONE: THE COSTS

Calculation of contributions

Contributions are deducted at the source from the employee's admissible earnings.

RRE

Since July 1, 1982, the rate for determining contributions has been fixed at 8.43% (as compared to 7.09% in 1978)

To calculate one's contribution, it is important to take the following priorities into consideration:

1) Maximum admissible earnings (MAE) as defined by the QPP (Quebec Pension Plan):
   16,500$ for 1982
   18,500$ for 1983
2) The amount of personal exemption:
   1,600$ for 1982
   1,800$ for 1983

Example:

The contribution for admissible earnings of $30,000.* in 1983 would be calculated as follows: (Bill 68, section 25)

— 8.43% of the first 1,800$	= 151.74$
— 6,63% of the following 16,700$	= 1,107.21$
— 8,43% of the remaining 11,500$	= 969.45$
	TOTAL: 2,228.40$

* Note: We have taken a hypothetical salary in 1983, even though, in practice, one must take 9 months salary from year X and 3 months salary from year Y (Bill 70)

The reduction of 1.8% allowed on the second block represents the contribution of the Quebec Pension Plan (QPP).

In 1983, the total contribution to the RRE for admissible earnings of 30,000$ would come to 2,228.40$ or 7.4280% of the gross salary.

RREGOP

The rate for determining contributions is 7.1% of the sum exceeding 35% of the maximum admissible earnings as defined by the QPP.

In fact, all subscribers benefit from an exemption based on their contribution to the QPP. This exemption is equivalent to 35% of the maximum admissible earnings defined in that plan, and comes out to 6,475.$ in 1983.

Example:

The contribution for admissible earnings of $30,000. in 1983 would be calculated as follows: (Bill 68, article 6)

7,1% of (30,000$ - 6,475$) = 1,670.28$

In 1983, the total contribution to the RREGOP for admissible earnings of 30,000$ comes to 1,670.28$, or 5.5676% of the gross salary.

SUMMING UP THE COSTS:

A subscriber whose admissible earnings in 1983 total 30,000$ would pay:

to the RRE:	2,228.40$ (7,4280%)
to the RREGOP:	1,670.28$ (5,5676%)
difference:	558.12$ (1,86%)

Is the PRICE of staying with the RRE justifiable?

With few exceptions, the answer is no. Deposit the difference in a RRSP (Registered Retirement Savings Plan) for 10 years or more and compare the results if you want to be sure.

IN CONCLUSION:

Though contributions to the RRE were slightly less expensive before Bill 68, the REE now costs quite a bit more than the RREGOP, and the difference will probably increase with time. We were right in calling the RRE "a boat set adrift" for which "the current gets stronger and stronger as we approach the FALLS!!! As a union, we have no control over this plan.

SECTION TWO: THE BENEFITS

Pension:

Both plans, RRE and RREGOP, offer the same pension advantages:

2% X the average of the five (5) best years	X	number of years of service (max. 35 years)

In both cases, pensions are indexed to the cost of living (C.P.I.) less 3% (Bill 68: this provision applies for all years acquired after July 1, 1982) and are deducted from the QPP allowance after 65 years of age. (NOTE: Full indexation was accorded before Bill 68). However, through a complete mathematical calculation in some very special cases, one finds that the RRE can have an advantage in terms of accessibility to one's pension; it is possible to retire earlier than one can with the RREGOP.

TABLE 1
RRE: Pension or refund
NOTE: No interest is granted on refunds

WOMEN

Years of service / AGE	under 50 years	from 50 years to under 55 years	from 55 years to under 58 years	from 58 years to under 60 years	from 60 years to under 65 years	65 years and over(2)
Under 10	Refund	Refund	Refund	Refund	Pension	Pension
From 10 to under 22	Deferred Pension	Deferred Pension	Deferred Pension	Pension	Pension	Pension
From 22 to under 32	Deferred Pension	Reduced Pension 1	Reduced Pension 1	Pension	Pension	Pension
From 32 to under 35	Deferred Pension	Reduced Pension 1	Pension 3	Pension	Pension	Pension
35 and up	Pension	Pension	Pension	Pension	Pension	Pension

1) In this case, the pension allowance is reduced by .5% for each month, starting on the date on which partial pension was first accorded until the date on which normal, full pension would otherwise be attained.

2) With Bills 15 and 193, retirement is no longer obligatory.

3) It is this famous 55/32 rule that can **can possibly** *constitute an advantage of the RRE over the RREGOP in some cases. But be sure to take into consideration that 32 years of service gives you the right to benefits equal to 64% (2% X 32) of your 5 best years for the duration of your pension, instead of a possible maximum of 70%.*

TABLE II

RRE: Pension or refund

NOTE: NO INTEREST is granted on refunds

MEN

Years of service	AGE: under 55 years	From: 55 years to: under 62 years	From: 62 years to: under 65 years	65 years and up (2)
Under 10	Refund	Refund	Refund	Refund
From 10 to: under 22	Deferred Pension	Deferred Pension	Pension	Pension
From 22 to under 32	Deferred Pension	Reduced Pension 1	Pension	Pension
From 32 to under 35	Deferred Pension	Pension 3	Pension	Pension
35 and up	Pension	Pension	Pension	Pension

1. *In this case, the pension allowance is reduced by .5% for each month, starting on the date on which partial pension was first accorded until the date on which normal, full pension would otherwise be attained.*
2. *With Bills 15 and 93, retirement is no longer obligatory.*
3. *It is this famous 55/32 rule that* **can possibly** *constitute on advantage of the RRE over the RREGOP in some cases. (see Table 1, footnote 3)*

PHOTO: BERTRAND CARRIÈRE

TABLE III
RREGOP: Pension or refund?
NOTE: INTEREST is granted on refunds

Years of service	AGE	Under 45 years	From: 45 years to: under 60 years	From: 60 years to: under 65 years	65 years and up(6)
Under 2 [1]		Refund	Refund	Choice between 1) reduced pension 2) Refund	Pension [5]
From 2 to: under 10 years of continuous service(2)		Choice between 1) refund; or 2) deferred pension [4]	Choice between: 1) refund; or 2) deferred pension [4]	Choice between: 1) reduced pension immediately or 2) refund; or 3) deferred	Pension [5]
10 or more years of continuous service		Choice between: 1) refund; or 2) deferred pension [4]	Mandatory deferred pension [3]	Choice between 1) reduced pension immediately; or 2) mandatory deferred pension [3]	Pension
Coefficient 90		Does not apply	Pension, reduced by .5% X the number of months before 60th birthday (immediately)	Full pension immediately	Does not apply

NOTES:

1. *If an employee returns to any job covered by this plan within 180 days of the date on which he or she resigned, the said employee can choose to have the period of less than 2 years counted, or can ask for a refund, as he or she sees fit. If the employee returns after a break of more than 180 days, the period of less than 2 years can only be refunded (unless the employee had reached 60 years of age when he or she resigned).*
2. *Even if a person over 45 years of age has a total of more than 10 years of non-continuous service, he or she can ask for a refund at any time for all of the periods of less than 10 years of continuous service, and this for as long as a period of 10 years of continuous service has not been completed.*
3. *Mandatory deferred pension: In this instance, a person can ask for a refund amounting to 25% of the current value of his or her pension (section 73, paragraph 2).*
4. *An employee can make his or her choice at any time, starting with the day on which their employment ends (but before the actual date on which pension payments would begin).*
5. *An employee could still have his or her contributions refunded if so desired.*
6. *With Bills 15 and 93, retirement is no longer obligatory.*

"CHOICE BETWEEN": This implies an individual choice on the part of the employee. All of this information can be found in Article 52 (modified version) and Articles 71 to 76 of the RREGOP, "L.R.Q., c.R.-10" (French version)

Access to pension is superior under the RRE for those who started to contribute when they were between 20 and 23 years of age on for those whose contributions began after they were 50 years of age... and then, only if they want to retire right away!

When we look at the benefits available if one ceases to be employed, the RREGOP is vastly superior. Assuming a conservative interest rate of 7% per year, a teacher who has contributed 1,000$ per year over the last 10 years would receive 10,000$ under the RRE, as compared to 14,700$ under the RREGOP. Once more, a teacher nearing the end of his or her career, who decides to get involved in some new area of activity, would be eligible to receive 25% of the current value of his or her pension plan. If a person's deferred pension would amount to 10,000$ a year, at 65 years of age, he or she could choose to reduce that allowance to 7,500$ a year and receive a lump sum immediately in return, in order to launch a new career (ex.: if the subscriber was a 55 year old man, this lump sum would be close to 25,000$).

Disability pensions and pensions for the surviving family members of subscribers who die before receiving their pension

These sections of the RRE are of questionable value; they offer real protection only to long-term contributors. A good life and salary insurance policy is much more effective in the long run, as it offers better protection when the subscriver's family is still young. Finally, as long-term contribution to the RRE creates a vested interest in the plan, these marginal benefits cannot justify an employee's staying with the RRE... especially when you consider that the disability allowance (short and long-term) is deductible from all pensions or allowances offered by any public or private pension or insurance plan.

Guaranteed payment in case of death

RRE:

If the subscriber and his or her heirs have not received a sum equal to the **total contributions** made **to** the plan, the inheritors will be given an amount equivalent to the difference between the amount paid and the pension received.

RREGOP:

If the subscriber and his or her heirs have not received a sum equal to the **total contributions plus interest,** the inheritors will be given an amount equivalent to the difference between the amount paid plus interest and the pension received.

The RREGOP has an added advantage in that it guarantees that the minimum allowance paid will be at least as great as the employee's contributions plus interest; the interest can be quite significant, if the employee has been paying into the plan for 35 years.

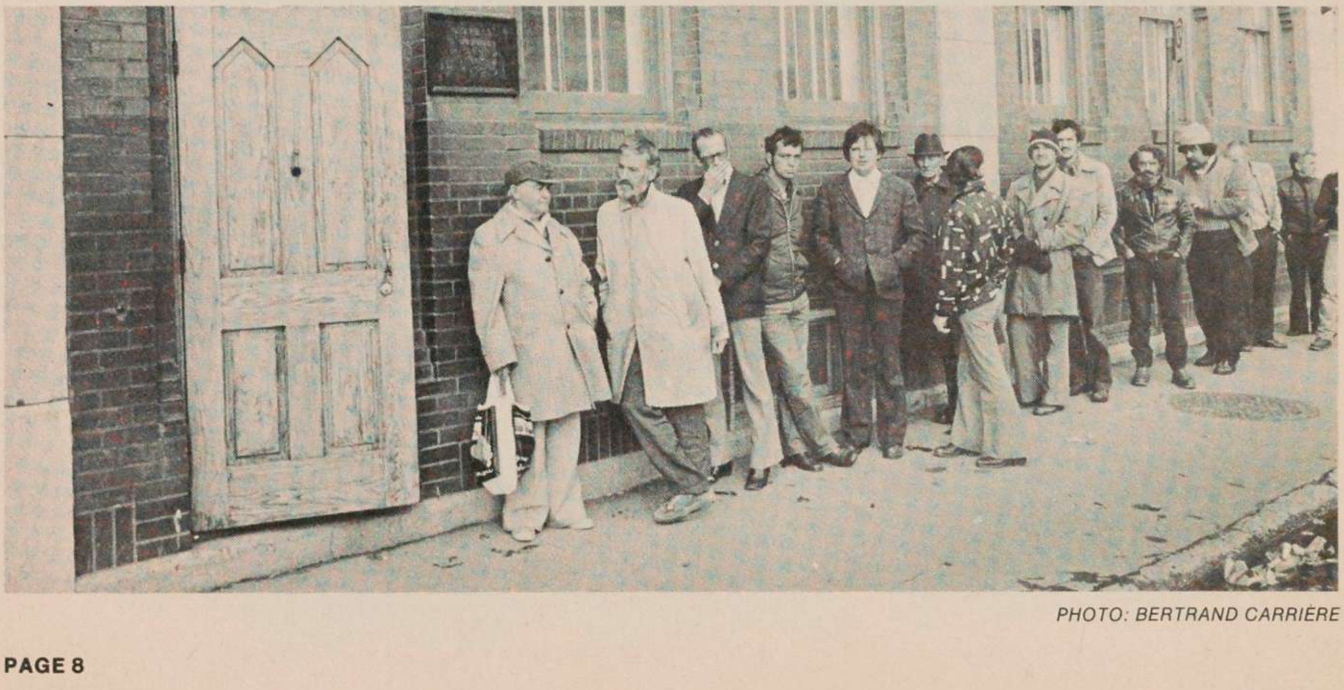


PHOTO: BERTRAND CARRIÈRE

Unpaid leave of absence of more than 30 days

RRE:

This period counts in the overall calculation of years of service as long as the employee continues his or her payments to the plan throughout. There is no delay for requesting such an arrangement.

RREGOP:

The period counts in the overall calculation of years of service if the employee continues his or her payments **and** their employer's payments throughout. A request to this effect must be made within the first six months of the leave.

Example:

In 1982-1983, for a teacher with 18 years education, 12 years teaching experience, a salary of 33,385$ (under Bill 70):

Redemption payments to the RRE: 2,513.76$ (1 year's leave)

Redemption payments to the RREGOP: 3,821.22$ (1 year's leave)

The advantage of the RRE is relatively minor, as a cost of 2,513.76$ is already quite high. Moreover, for many subscribers, an unpaid leave of absence of one or two years will have little or no effect on the accessibility of their pension or on the total amount of pension payments. Before repurchasing years of service, it is very important to investigate the real value of such a decision.

Are redemption payments worthwhile?

When? If an employee wishes to repurchase years of service for which he or she has made no contribution.

Examples:

- years taught as a Nun or Monk (10 or more years in some cases)
- unpaid leave of absence
- years taught
- years where payments were not made by mistake
- years of military service.

Conditions: Fulfill certain criterions of admissibility and the conditions required by law (both RRE and RREGOP).

ADVANTAGES
REPURCHASING PERMITS:

1) Increased revenue upon retirement (one must still verify this advantage, through a mathematical calculation, to be sure that it represents the best solution... as compared to a RRSP for example);
2) Earlier access to pension... but do not forget:
   - point 1) above; that is, at what total revenue?;
   - to consider that the obligatory age of retirement had been abolished;

   early retirement and near-retirement clauses in the collective agreements or the decrees;
3) A tax deduction (a RRSP also permits this).

DISADVANTAGES

1) A subscriber can repurchase a maximum of 15 years, **less the years** transferred from the RRE to the RREGOP;
2) Repurchased years are calculated **only** for access to an annual pension or, if applicable, to a deferred pension (RREGOP, Article 83);
3) Years repurchased give a **fixed pension, with no indexation.**

Summing up - Repurchasing

1) The further you are from full retirement, or the younger you are, the less useful it can be. It may even constitute a bad mistake.

   Example: You are 40 years old, with 14 years of service. You can repurchase one year of service (for which no contributions were made) for 1,000$ or 2,000$ to receive, on retirement (at 60 years of age with 35 years of service), a pension established today at 90$/month. In 20 years time, what will 90$/month (remember, no indexation) be worth? Probably close to nothing!
2) If one is close to retirement and wants to go on pension as soon as possible, repurchasing can be useful. Even so, verify all your calculations... and negotiate "near-retirement" or "early retirement" clauses with your local employer (in the collective agreement or the decrees).

PHOTO: BERTRAND CARRIÈRE

CONCLUSIONS — TRANSFER RRE-RREGOP

Bill 68 allows subscribers of the RRE to transfer to the RREGOP at any time. A teacher wishing to change from the RRE to the RREGOP must advise the CARR (Commission Administrative des Régimes de Retraite-Commission for the Administration of the Pension Plans) by filling out and sending on the appropriate form (available at the personnel office in any college). The transfer becomes effective three months after receipt of the request by the CARR.

All those who still subscribe to the RRE should ask themselves if it would be worthwhile to transfer to the RREGOP. Given that a comparative analysis of the costs and benefits of the two plans shows the RRE loosing ground to the RREGOP, we reiterate our recommendation of Spring '79 to all subscribers of the RRE (now up to date).

— Given the absence of all control over the RRE by its' subscribers;
— Given the precarious financial situation of the RRE;
— Given that the RRE costs more, and may well cost comparatively more in the future;
— Given a global superiority of benefits with the RREGOP as compared to the RRE:

we recommend that all college level teachers adhere to the RREGOP, unless they want to retire as soon as possible, in spite of potentially lower benefits (financially or otherwise).

In any case, do not hesitate to contact your union or the FNEEQ for more information or advice.

OTHER POINTS

1) Over or under payment

Any overpayment of required contributions is automatically refunded to the teacher; however, there may be several years delay. In general, this situation is not to be worried about.

When underpayment occurs, **only** the college can be summoned by the CARR to readjust the contributions. It is **illegal** for the CARR to approach individual teachers in such cases. However, if you should be approached by the CARR, or if the college demands payment for contributions from past years, inform your union before taking any other action.

2) Leave of absence: exemption from contributions

Some very particular leaves allow a teacher to accumulate years of pensionable service without making his or her payments. These are as follows:

Maternity leave:

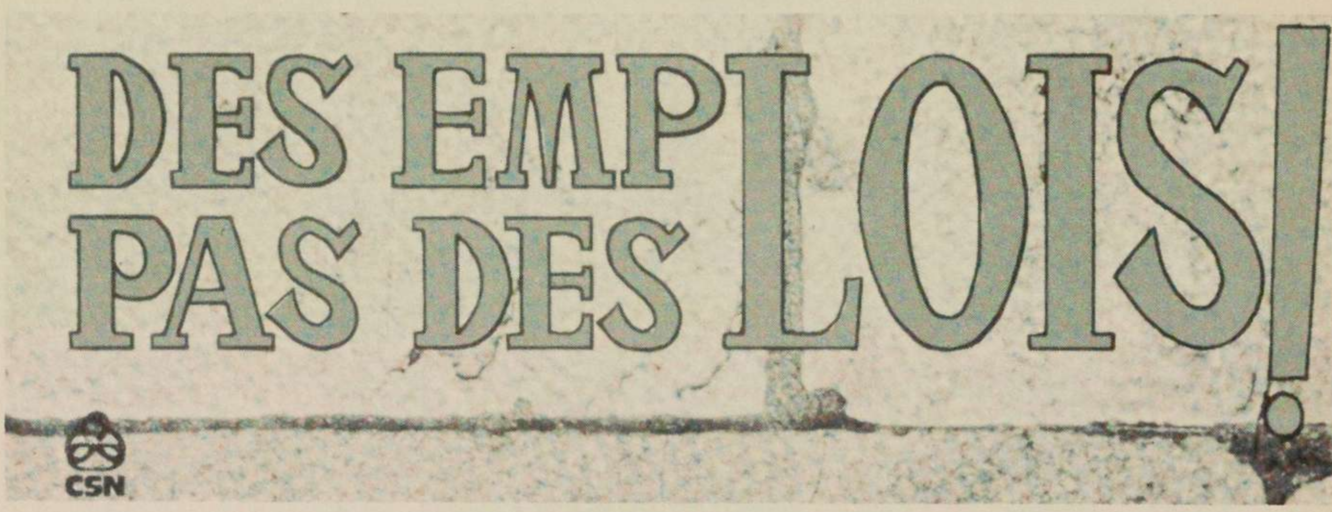
A period equal to the number of days of absence, without exceeding 120 days, is calculated in the years of service of a teacher without her paying any contribution.

One must make an application to this effect within one year of the end of a maternity leave. However, if an unpaid leave follows the maternity leave this application must be made no later than 6 months after the beginning of the unpaid leave (with the RRE, there is no such additional constraint).

Sick leave:

When a teacher is receiving salary insurance payments, he or she is exempted from payments to the pension plan. This period is **automatically credited** to the teacher.

PHOTO: BERTRAND CARRIÈRE



Bill 68 in brief:

Bill 68 now implies:

- that there is no deadline for transfers from the RRE to the RREGOP;
- that contributions are shared equally between employer and employee since July 1, 1982 (50%/50%);
- that, as of January 1, 1983, pensions are indexed after the first 3% rise in the CPI, as defined by the QPP. This reduction of indexation applies only to that port of the pension acquired after June 30, 1982;
- proportional indexation in the year immediately following retirement:

$$\frac{\text{number of days on pension in the first year}}{\text{number of days in the calendar year}} \times (\text{CPI as of the QPP-3\% as of } 01/01/83)$$

Example: for retirement on September 1, 1982:

$$\frac{\text{122 days on pension in '82}}{\text{365 days in 1982}} \times (11.2\% - 3\%)$$

$= .334 \times 8.2 = 2.74\%$ indexation on January 1, 1983

Without Bill 68, full indexation would have given 11.2% on January 1, 1983.

- that the SPEQ agreement allows one to retire up to six months early, by counting unused sick days and holidays.

It can only help to be better informed.

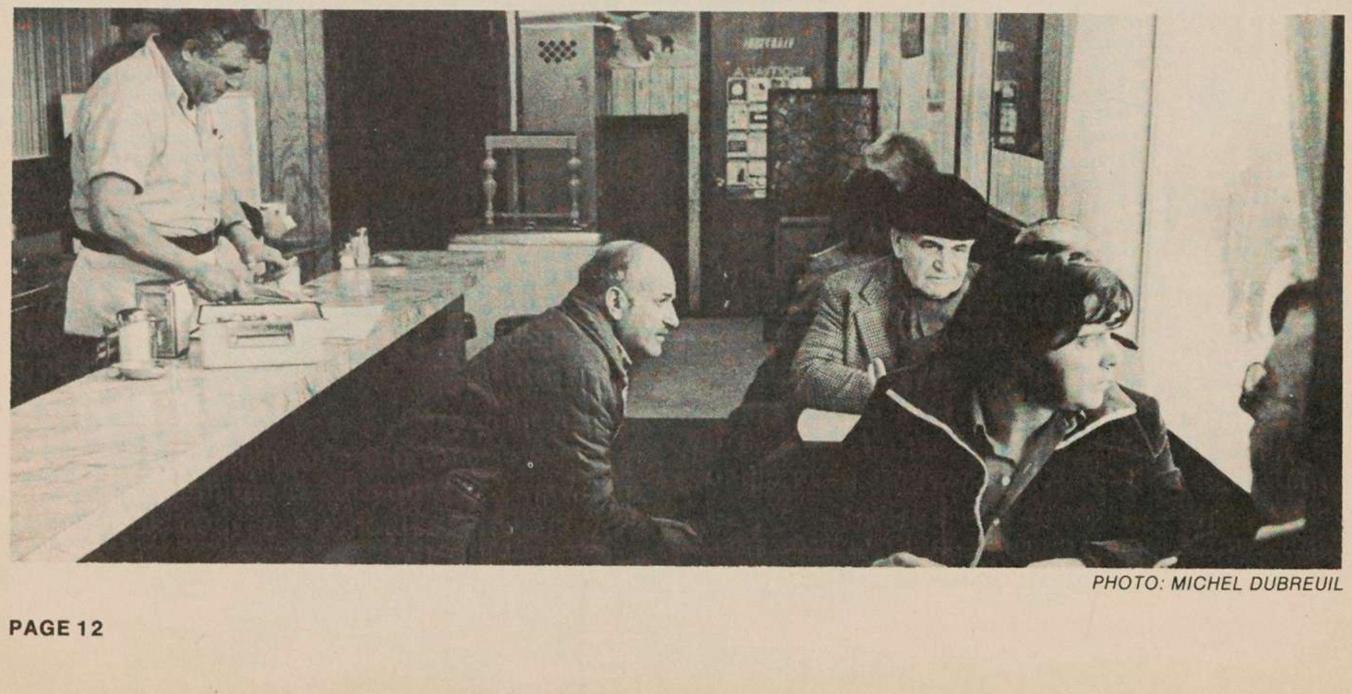


PHOTO: MICHEL DUBREUIL

WE NEED INSURANCE

Following up suggestions and requests from our members and militants, the FNEEQ has contacted an insurance company and (together with the CSN) a number of brokers who offer collective house and car insurance plans, within relatively short delays.

Up to date, only or so members have taken advantage of these agreements.

A comparative analysis shows that the plan offered by the brokerage "Dagenais, Lareau Assurances" contains many advantages not found in those of its competitors. However, this company only signs individual contracts, on a strictly voluntary basis. The FNEEQ authorization of this brokerage does not imply any liability on the part of the Federation.

Interested members can shop around for themselves, comparing premiums offered by this broker with those available through their present broker.

Do not forget, it is essential that you be **a member of the FNEEQ** to be eligible for this collective policy, as any fraud releases the company from all responsibility.

WHAT TO DO IF INTERESTED

Well before the renewal date of your car and/or house insurance policy (ies), call "Dagenais, Lareau Assurances" for information at the following numbers (do not forget to mention that you are a member of the FNEEQ):

Montreal: (514) 284-0121

Long distance (free of charge): 1-800-361-5362 — Telex 05-25120

Office hours: 8:30 a.m. to 4:30 p.m., Monday to Friday.

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