POSITIVE RESULTS FOR THE PPMP FUND

A 14% Return in 2006

Good news! The PPMP fund delivered a return of 14% for 2006. Over the last ten years, the plan’s average rate of return reached 8.4%.

As we mentioned in our May 2006 issue, the PPMP fund is diversified into several categories of assets in order to counteract the volatility of the overall portfolio’s return. Among the best performing portfolios in 2006, we find Real Estate (30.5%), Private Equity (30.4%) and Canadian Equity (22%). Other categories of assets earned a lower return. Bonds, for example, which represent 31% of the fund’s investments, delivered a 4.2% return.

The excellent result of 14% earned by the Caisse de dépôt et placement du Québec surpasses the indexes specified in its investment policy to measure its performance.
A $7.3 Billion Fund

The PPMP fund went from $6.4 billion as at December 31, 2005 to $7.3 billion as at December 31, 2006. The increase can be explained as follows:

- Investment earnings: + $890 million;
- Members’ contributions: + $125 million;
- Transfers \(^1\): + $155 million;
- Benefits paid: - $210 million.

The PPMP fund pays half of the benefits under the plan. The other half is paid by the Government.

DID YOU KNOW?

CARRA is the main depositor of the Caisse de dépôt et placement du Québec with assets of $51.8 billion as at December 31, 2006. The largest portion of that amount is made of contributions paid by members of RREGOP and the PPMP.

FOLLOWUP ON OUR SPECIAL FILE \(^2\) ON THE FUNDING OF THE PLAN

Adoption of the Funding Policy

In our October 2006 issue, we mentioned that the PPMP Retirement Committee had asked a work group to establish a funding policy for the PPMP that would address the following aspects:

- Promoting the security of the benefits under the members’ responsibility;
- Promoting the stability of the members’ contribution rate.

The funding policy will be a tool that will help us deal with the variability of the contribution rate while taking into account the demographic development of the pension plan since there will be less and less members to absorb the shifts in the financial markets.

At its January 2007 meeting, the PPMP Retirement Committee adopted the funding policy proposed by the work group. The policy will be applied for the first time in the plan’s next actuarial valuation to be tabled by CARRA’s actuaries next fall.

Here are a few items of the policy.

Changing the Contribution Formula

The formula used by the actuaries to determine the PPMP contribution rate will be amended in order to reflect the plan’s financial situation more accurately. The new formula will show if the fund has a surplus or a deficiency. It will also help determine what contribution rate the plan should aim for in the long term when there is neither surplus nor deficiency. This will make results easier to understand.

In addition, the new formula provides that gains and losses affecting the plan’s return will be amortized over a longer period, i.e. 15 years instead of 9. This will reduce the variations of the contribution rate.

A New Stabilization Fund

A fund supplied from the PPMP members’ fund will be used to absorb any surplus and cover any deficiency. Thus, when results are positive, money will go to the stabilization fund until it reaches 10% of the members’ obligations. When results are not positive, money will be withdrawn from the stabilization fund to absorb any deficiency before raising the contribution rate beyond the threshold set in the actuarial valuation.

The Unavoidable Reality

These new ways of doing business will reduce the variations of the contribution rate, but they will not entirely eliminate them. The volatility of the returns observed in financial markets and the demographic profile remain factors with which the plan has to cope.

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1. These transfers essentially come from the Government and Public Employees Retirement Plan (RREGOP).
2. See the October 2006 issue of The PPMP at a Glance, volume 1, no. 3.
Since it was created in 1973, CARRA has administered the retirement plans entrusted to its administration by statute or by the Government. In order to carry out its duties, CARRA has a structure that comprises retirement committees. During the last few years, three new retirement committees, i.e. the PPMP committee, the Pension Plan of Elected Municipal Officers (PPEMO) committee and the Superannuation Plan for the Members of the Sûreté du Québec (SPMSQ) committee have been added to the RREGOP committee and have made CARRA’s governance more complex. As a matter of fact, the Government and each of these committees must be consulted before CARRA’s annual budget can be approved. This multiplication of decision levels has caused many delays during the last budget years without clarifying CARRA’s governance.

In order to rectify the situation, on December 14, 2006, the National Assembly adopted the Act respecting the Commission administrative des régimes de retraite et d’assurances. The Act granted CARRA a new governance, effective on June 1, 2007. Starting on that date, CARRA will be managed by a board of administrators whose functions will include budget and staffing decisions.

In addition, the Act provides that CARRA will conclude service agreements with each retirement committee. The Act also amends the Act respecting the Pension Plan of Management Personnel to introduce all the provisions related to its retirement committee. The Committee will have a Chairperson and 16 other members, 2 more than the current number. From that number, 8 will represent the Government, 7 will represent PPMP members and one will represent PPMP pensioners.

The role of the PPMP Retirement Committee is also set out in the Act. The Committee will define the investment policy of the PPMP fund, approve the plan’s financial statements and receive the actuarial valuation reports.

**APPOINTMENTS TO THE PPMP RETIREMENT COMMITTEE**

On June 20, 2006, the Cabinet made two new appointments to the PPMP Retirement Committee. Mr. Patrick Déry, of the Ministère des Finances, will represent the Government and Mr. Mathieu Vaillancourt will represent pensioners.

**PENSION INDEXATION**

Pensions are indexed each year on January 1. The indexation formula for the PPMP varies depending on the period during which a member accumulated service under the plan.

The following table shows the various indexation formulas and the indexation rate as at January 1, 2007. The rate is set according to the rate of increase of the Pension Index (P.I.).

<table>
<thead>
<tr>
<th>Period</th>
<th>Indexation Formula</th>
<th>Indexation Rate as at January 1, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPMP service before July 1, 1982</td>
<td>Rate of increase of the P.I.¹</td>
<td>2.1%</td>
</tr>
<tr>
<td>PPMP service from July 1, 1982 to December 31, 1999 incl.</td>
<td>Rate of increase of the P.I., minus 3%</td>
<td>0%</td>
</tr>
<tr>
<td>PPMP service since January 1, 2000</td>
<td>50% of the rate of increase of the P.I., minus 3%²</td>
<td>1.05%</td>
</tr>
</tbody>
</table>

¹ The rate of increase of the P.I. is a percentage determined each year by the Régie des rentes du Québec by dividing the P.I. of a year by the P.I. of the previous year.
² The indexation corresponds to the most beneficial formula.
RETIREMENT INCOME SPLITTING

Starting in 2007, retired couples can split certain retirement income on their income tax returns. This will allow couples to pay less income tax.

For retirees under 65, benefits from registered pension plans (such as the PPMP) constitute the main retirement income to be split. For those who are 65 or over, life annuities bought with registered retirement savings plans (RRSPs) and withdrawals from registered retirement income funds (RRIFs) can also be split.

This will allow the spouse whose income is higher to allocate 50% of his eligible retirement income to the spouse whose income is lower. By doing so, the income tax to be paid on the allocated amount will be transferred to the spouse with the lower income. This transfer of income to a lower tax bracket will result in the reduction of the couple’s tax burden. There is no limit to the age of the spouse to whom the income can be allocated, but the spouses’ agreement is required.

The governments of Canada and Québec have introduced the legislation in the fall of 2006, but the administrative details remain to be defined. To benefit from the new opportunity, you have nothing to do until filing your 2007 income tax return. You can obtain more information from the following departments and agencies:

- Finances Québec (www.finances.gouv.qc.ca)
- Revenu Québec (www.revenu.gouv.qc.ca)
- Department of Finance Canada (www.fin.gc.ca)
- Canada Revenue Agency (www.cra-arc.gc.ca)

The information contained in this newsletter is of a general nature and does not supersede the legal provisions of the act that governs your plan or its regulations.

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To share your comments or suggestions with us:
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The masculine form is used to designate either sex.

DID YOU KNOW?

In 2006, 1 487 PPMP members have retired at 58.2 years of age on average. These new pensioners had an average of 29.9 years of service and their average pension amount is $46 024. On December 31, 2006, the PPMP had 15 644 retirees and 1 337 surviving spouses.

The benefits of new technologies no longer need to be demonstrated and the opportunities offered by Internet for information dissemination are more than interesting… if for no other reason than the reduction of paper consumption!

The PPMP mailing list can be accessed on CARRA’s Web site, under The PPMP at a Glance.