The PPMP at a Glance

RETURN OF THE PPMP MEMBERS’ FUND IN 2012

The PPMP members’ fund generated a return of 9.2% in 2012, which is more than the 6.25% anticipated in the most recent actuarial valuation of the PPMP. The funds are invested in the Caisse de dépôt et placement du Québec (CDP) in 12 different asset classes such as bonds, real estate investments, Canadian equity funds, etc.

Each of these categories generated a positive return in 2012. The stock markets obtained the best results last year; for example, the United States stocks, with a return of 13.5%, and the emerging markets’ stocks, which increased to 15.8%. The return on the fixed-interest security was more modest, the bonds having returned 4.3% in 2012.

Return of the PPMP members’ fund over the last 10 years

From 2003 to 2012, the PPMP members’ fund generated an average return of 6.7% per year. It was an important factor in the growth of the fund, increasing from 4.9 billion in 2003 to 7.8 billion in 2012.
As the work progressed, the Pension Committee made the 2 following findings:

1. For the PPMP’s asset to be linked to its liability, the plan’s members’ fund should be further invested in long-term bonds. The new investment policy, which provides that most of the short and long-term bonds held by the PPMP will be replaced by long-term bonds. However, this operation will only take place when the bond rates are higher. An implementation schedule of those changes was created with the CDP and those changes will apply automatically when certain conditions are met.

2. The period is not appropriate to invest in long-term bonds, since the bond rates have reached historical lows. If those rates were to increase rapidly, the return (based on the market value) of long-term bonds would be highly negative.

The new investment policy

Following those findings, the Pension Committee adopted a new investment policy, which provides that most of the short and long-term bonds held by the PPMP will be replaced by long-term bonds. However, this operation will only take place when the bond rates are higher. An implementation schedule of those changes was created with the CDP and those changes will apply automatically when certain conditions are met.

These last years have shown us that the economy and financial markets change rapidly and are difficult to predict. That is why the Pension Committee will revalue at least once a year the members’ asset linked to liability. It is what the Pension Committee calls management of the asset linked to liability.

The PPMP's investment policy regroups the instructions the CDP must follow in its management of the PPMP members’ fund. The main element is the reference portfolio, which constitutes the target asset between the various categories of assets offered by the CDP. The fund investment policy is determined both by the Pension Committee and the CDP.

INVESTMENT POLICY

During these last years, the PPMP at a Glance has informed you that major projects linked to the investment policy are under way. These projects led to the adoption of a new investment policy by the PPMP Pension Committee in June 2012.

Summary of the Projects

The Pension Committee is pursuing the objective to stabilize the PPMP’s financial situation and decrease the variation of the contribution rate for the plan’s active members. The completed projects have demonstrated that, in order to reach this objective, the return of fund for the members of the plan (asset) should be further linked to the PPMP’s engagement under the responsibility of these people (liability). It is what the Pension Committee calls management of the asset linked to liability.

WHAT IS THE PPMP’S INVESTMENT POLICY?

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As the work progressed, the Pension Committee made the 2 following findings:

1. For the PPMP’s asset to be linked to its liability, the plan’s members’ fund should be further invested in long-term bonds.
2. The period is not appropriate to invest in long-term bonds, since the bond rates have reached historical lows. If those rates were to increase rapidly, the return (based on the market value) of long-term bonds would be highly negative.

The new investment policy

Following those findings, the Pension Committee adopted a new investment policy, which provides that most of the short and long-term bonds held by the PPMP will be replaced by long-term bonds. However, this operation will only take place when the bond rates are higher. An implementation schedule of those changes was created with the CDP and those changes will apply automatically when certain conditions are met.

These last years have shown us that the economy and financial markets change rapidly and are difficult to predict. That is why the Pension Committee will revalue at least once a year the plan, according to the strategy chosen, the conditions needed for its deployment as well as the pace of the implementation schedule.

IMPLEMENTATION OF A COMPENSATION FOR THE CONTRIBUTION RATE

Once assented, this law introduced the payment of an annual compensation by employers. For employers who do not pay contributions, the compensation is assumed by the government.

This measure was implemented in order to limit the increase of the contribution rate while avoiding the PPMP’s underfunding. In addition to its usual commitments, the government will thus pay an annual compensation directly to the PPMP members’ fund in order to make up the difference between the contributions paid by the members and the contributions needed to finance the plan, according to the most recent actuarial valuation, and this, since 2012, until 2016 inclusively.

Therefore, if this measure had not been implemented, the contribution rate of 12.59% applied since 2012, would be of 12.84%.

THE REDUCTION PERCENTAGE OF THE ANTICIPATED DEFERRED PENSION

Following a regulatory amendment consecutive to the assent of the L.Q., 2012, c.6, a reduction of 0.33% per anticipated month (4% per year) will be applied to all anticipated deferred pensions that will be paid starting on July 1, 2013.

MEMBER’S ANNUAL STATEMENT

More than two-thirds of PPMP members have received this new statement, which is a precious source of information to help you adequately plan your retirement. The document shows the details of your participation in the PPMP and informs you of the benefits to which you could be entitled when you retire or when your employment ends.

If you did not receive your annual statement, CARRA can offer you a Statement of Contributions, or a Pension Estimate if you are less than 14 months away from the date you plan to retire. The future mailing of the statements should be in 2014.

If you wish to know more about the member’s statement, consult CARRA’s website under Documentation → Publication pour les participants.
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TO CONTACT US

On Internet
www.carra.gouv.qc.ca

By phone
418 645-4811 (Québec area)
1 800 463-5533 (toll free)

Persons with a hearing impairment
418 645-5533 (Québec area)
1 800 33 7-4076 (toll free)

By fax
418 644-8659

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March 2013

A newsletter for the members and pensioners of the Pension Plan of Management Personnel (PPMP)

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Evolution of fund 302 – PPMP (billions of dollars)

Evolution of return from 2003 to 2012 (percentage)

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