
Service de la sécurité sociale

Amendments to RREGOP as of July 1, 2019 and July 1, 2020

February 11, 2019

- Siège social
- Bureau de Québec

Centrale des syndicats du Québec
9405, rue Sherbrooke Est, Montréal (Québec) H1L 6P3
320, rue St-Joseph, bureau 100, Québec (Québec) G1K 9E7
Adresse Web : <http://www.lacsq.org>

Téléphone : (514) 356-8888 Télécopie : (514) 356-9999
Téléphone : (418) 649-8888 Télécopie : (418) 649-8800

Objective

To inform future retirees so that they can avoid a penalty or the imposition of a greater penalty because of the implementation of new retirement criteria for RREGOP.

Recap of the last negotiations

As a result of the last negotiations, three amendments to RREGOP were agreed on with the government.

1. Eligibility for pension without reduction¹
 - The age criterion of 60 years old terminates on June 30, 2019
 - Two new criteria take effect as of July 1, 2019
 - 60 years old plus 30 eligible years
 - 61 years old
2. Increase in the actuarial reduction (rate of reduction)
 - The actuarial reduction rate of 4%/year (0.333%/month) will be replaced by an actuarial reduction rate of 6%/year (0.5 %/month) as of July 1, 2020
3. Maximum number of years of service for the purposes of calculation:
 - From January 2017 to December 2018, the maximum number of years of service for the purposes of calculation rose from 38 to 40 years.

As a result of these changes, rules governing transition and explanations were also agreed on.

Changes to retirement criteria

Departure

Generally speaking, two scenarios are applied regarding departure dates and ending participation in the pension plan.

¹ The following criteria were maintained: 55 years of age (with penalty) and 35 eligible years (without penalty). If a person is under 55 years of age, but has 35 eligible years, the person will receive a pension without penalty.

1. Our members sometimes leave the workplace (**departure date**) before they start receiving RREGOP pension benefits. For example, a laboratory technician's last day of work is June 3 (departure date), but she continues to receive pay for a period of time equivalent to acquired vacation time. If the last day of vacation falls on July 5, the **end of participation date** will be July 5.

As a result, years of service for the purposes of calculation and eligibility continue to accumulate. This has the effect of increasing average pensionable salary over the 5 best-paid years and also adds to time of service for the purposes of calculation and eligibility.

2. Members apply to cash in all of the accumulated benefits (sick days, vacation), on the actual day **of departure, which will, as a result, be the end of participation date**. By doing so, they do not accumulate service or increase their average salary. Their pension thus becomes payable on the next day.

Caution - July 1, 2019

Should a person wish to leave work a little before July 1, 2019, they must keep in mind that they could be penalized if they apply to receive their vacation pay over the summer. In fact, assuming that the person's pension benefit is subject to an actuarial reduction (the person does not have 35 eligible years, is not 60 years old and does not have 30 eligible years or is not 61 years old), the reduction could be more significant if the employment relationship is ended in July or August.

For example, a person is 58 years old and has 26 eligible years on June 30, 2019. If the person leaves as of June 30, 2019, their actuarial reduction will be calculated over a period of 2 years (60 years minus 58 years). As a result, their basic pension benefit will be reduced by 8% (4%/year over 2 years).

On the other hand, if the person ends their employment relationship on August 5, 2019, for example, the person will be subjected to an additional penalty of 11 months. The gap will be calculated with regard to the 61 years of age criterion. The basic pension benefit will therefore be reduced by 35 months at a rate of 0.333% per month, i.e., by 11.66%.

If a person is entitled to a pension benefit without additional penalty, obviously there will be no effect on their pension benefit. For example, a person who already has 35 eligible years or who is already 60 years old and has 30 eligible years, will not be subject to any actuarial reduction. The same holds true for a person who is 61 years old.

Vigilance is key when a person has fewer than 25 eligible years at 55 years of age.

Increase in the actuarial penalty as of July 1, 2020

In July 2020, the same type of alert applies. The penalty will rise from 4%/year of anticipation (0.333% /month) to 6% (0.5%/month).

Once again, postponing the retirement start date of retirement after June 30, 2020 could have important financial consequences.

For example, a person who has planned to apply to receive their pension benefits at 56 years of age and who has accumulated 33 eligible years of service would be subject to a penalty of 6% per year for 2 years (12%) if they were to resign on July 1, 2020. On the other hand, the person would be subject to a reduction of 8%, if they had resigned, in order to retire, on June 30, 2020.

With regard to the increased reduction percentage, any person who does not meet one of the three criteria for receiving their pension benefit without penalty must be vigilant.

Should you end the employment relationship on the last day worked, or be paid for your vacation in the subsequent weeks?

The example presented below is calculated without any applicable actuarial reduction. Obviously, the calculations will vary according to the evolution of salary ranges. Our purpose here is to illustrate the factors that must be taken into account when making this decision.

Gaps in pension benefits may be different if the pension benefit is subject to actuarial reduction.

Basic information:

- Date of retirement: June 30, 2019
- Regular position: 35 hours/week
- Age: 60 years
- Years of calculation and eligibility: 33.000
- Basic annual salary: \$40,000
- Daily salary: \$153.85
- Accumulated vacation: 25 days
- Gross total of paid vacation: \$3,846
- Average pensionable salary for the 5 best-paid years: \$38,750²

² (\$40,000 at 50% + \$39,500 + \$39,000 + \$38,500 + \$38,000 + \$37,500 at 50%) / 5

The formula:

Number of contributing years X 2% X average pensionable salary for the 5 best-paid years

Calculation of the pension benefit on June 30:

$$33.0000 \quad \times \quad 2\% \quad \times \quad \$38,750 \quad = \quad \$25,575$$

Calculation of the pension benefit on August 5:

$$33.0961 \quad \times \quad 2\% \quad \times \quad \$38,798^3 \quad = \quad \$25,681$$

The gross gap: approximately \$106.

Therefore, by resigning on August 5, this person will increase their annual benefit before 65 years of age by \$106 (and by \$69 at 65 years of age). However, the person will lose 5 weeks of pension benefits (4 in July and 1 in August), in other words, a gross amount of \$2,460.

The person would require approximately 32 to 33 years⁴ to recover their money, and this is true without taking into account interest and the indexation of their pension benefits.

Reminder

90-day administrative delay before resignation takes effect

When a person takes their retirement, they must determine in advance the date on which their RREGOP pension benefit will start being paid (except in certain situations involving differed pension benefits). Retraite Québec recommends that a person submit their pension application 90 days prior to the first day of retirement to improve their chances of being paid on the 15 of the month following the start of their retirement. In the event of an application submitted less than 90 days prior to the first day of retirement, Retraite Québec will try to pay funds in advance and to correct the amount of the pension benefit later (see the illustration in the Appendix).

³ (\$40,000 at 59.61% + \$39,500 + \$39,000 + \$38,500 + \$38,000 + \$37,500 at 40.39%) / 5

⁴ \$106 X 5 years = \$530
\$2,460 - \$530 = \$1,930 / \$69 = 28 years
5 years + 28 years = 33 years

Appendix

