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FEATURE



Pensions benefit from new federal budget

The latest federal budget offered some temporary relief to plan sponsors with underfunded defined benefit plans.

According to the May 2006 submission, plan sponsors will now be able to consolidate their payment schedules and amortize their deficits over a new, single five-year period. As well, the proposed budget allows solvency funding payments to be extended over a 10-year period instead of five years, provided at least two-thirds of a pension plan's members agree to the change. Letters of credit may also be used as security to extend payment schedules to 10 years. The relief will be available to plan sponsors with funding payments that are up-to-date and filed with the Office of the Superintendent of Financial Institutions (OSFI) by the first valuation of 2008.

These reforms mirror suggestions made by plan sponsors, actuaries and investment industry sources for the last two years. The move is expected to relieve many large organizations from immediate funding obligations that, in some cases, amount to tens, even hundreds, of millions of dollars. Approximately 72 per cent of defined benefit plans have solvency deficits, according to OSFI.

The proposals only affect plans under federal regulation, about 10 per cent of the country's pension funds. Quebec and Alberta already have similar legislation in place. Ontario, which regulates over half of the nation's pension plans, says it has no plans to change its pension funding rules.

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LEGAL UPDATES

Bill 102 to standardize Ontario prescription drug delivery

The Ontario government plans to save up to \$289 million annually by changing the way prescription medications are purchased and dispensed in the province.

According to the province's Ministry of Health and Long-Term Care, the province is "not getting value for its money" under its current drug management system. Ontario hopes to change that by standardizing its drug purchasing and distribution practices and making the system more understandable.

According to Bill 102, the nation's largest province will introduce the following reforms:

- it will use its \$3.5 billion bulk buying power to reduce the price it pays for brand name drugs;
- it plans to fix the price it pays for generic drugs to 50 per cent of their equivalent brand-name product;
- it will become the second payer for the federal Public Service Health Care Plan and for working seniors with private drug plan coverage;
- increase the services and fees paid to pharmacists;
- increase the Ontario Drug Benefit plan dispensing fee maximum to \$7 from the current level of \$6.54;
- eliminate promotional allowances and rebates paid to pharmacies;

- enforce drug price compliance "to ensure manufacturers fulfil their pricing commitments and protect pharmacists from unauthorized price increases";
- encourage greater interchangeability between brand name and generic drugs;
- speed up the drug review process;
- allow the conditional listing of new drugs under certain conditions while they are being evaluated;
- require faster decisions and a more transparent rationale for the listing of drugs the province funds through the medicare system;
- align funding practices so that decisions are based on the drug itself and not the mechanism in which it is delivered to the patient; and
- allow pharmacies in long-term care homes to access the government's supply of pharmaceuticals.

The increase of the Ontario Drug Benefit (ODB) Plan dispensing fee to \$7 will have an immediate impact on the Coughlin Preferred Provider Network (PPN), which caps its prescription fee level at the ODB rate.

The move to become the second payer for the Public Service Health Care Plan (PSHCP) will affect more the 91,000 retired members of the federal public service, Armed Forces, RCMP and judiciary. The PSHCP requires its members to use other government plans, like the ODB, before they access the federal plan. By becoming the second payer, the Ontario government will save up to \$67 million in drug expenses each year. The

province will join Nova Scotia and Quebec, which already have similar legislation in place.

The proposals are based on the recommendations submitted by the Drug System Secretariat, which reviewed written recommendations and consulted more than 250 health experts worldwide.



Generic drugs mean huge savings, FDA admits

The Ontario government's plan to encourage the prescribing of more generic drugs is borne out by US data released by that country's Food and Drug Administration (FDA.)

According to the FDA, when a brand name prescription medication faces competition from just one generic competitor, the price of the generic brand is typically priced at 94 per cent of the brand name product. However, when two generics take on a brand name, generic prices drop to 52 per cent of that charged by the host medication. By the time nine generic products are on the market, their prices average just 20 per cent of the brand name medication.

With savings like that, is it any wonder many drug benefit plans have generic substitution programs as part of their plan design?



Health Council: Drug advertising "stimulates unnecessary drug use"

Those perky advertisements promoting erectile dysfunction medications and other prescription drugs will soon be a thing of the past, if the Health Council of Canada has its way.

A report sponsored by the consultative body takes aim at direct-to-consumer advertising (DTCA) of prescription drugs stating that such ads create *"avoidable harm by stimulating unnecessary and inappropriate medicine use while often failing to provide balanced appraisals of the medicine's value."*

While such advertising is prohibited in Canada, spillover television and magazine advertising have raised awareness and demand for these drugs, resulting in increased drug claims and expenses.

The report says that studies in both the US and Canada indicate that patients who request one or more of the prescription medicines featured in advertising are 17 times more likely to be prescribed the medication during a consultation. While supporters of direct to consumer advertising assert that the public has the right to know what medications are available to them, the Health Council report dismissed their arguments, stating that the benefit of such advertising is still to be proven.

"DTCA does influence patient demand and doctor prescribing behaviour. No evidence of health benefit was found... The onus is on those who might support DTCA to produce evidence of benefit and, in the absence of this evidence, we must assume that the likely disbenefits [sic], both clinical and economic, outweigh the as yet unproven benefits."

The Health Canada recommendations include the following:

- that full direct-to-consumer advertising of prescription drugs remain prohibited in Canada;
- consider omitting such advertising in split-run magazines (publications that are published in both Canada and the United States), similar to the way US alcohol and tobacco advertising is controlled;
- review cross-border advertising policy and consider blocking prescription drug ads from being broadcast into Canada;
- stronger enforcement of regulations governing drug promotions directed at both physicians and consumers; and
- closing loopholes in existing legislation that permit some prescription drug advertising based on price comparisons.



Pensions benefit from new federal budget

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Full details of the revised regulations will be released later, once Parliament has approved the budget.

In other pension matters, the budget doubled the pension income tax credit from \$1,000 to \$2,000, providing immediate tax relief to those receiving a pension income.

The Canada Pension Plan also was the beneficiary of the new budget. The newly elected Conservative government proposes allocating portions of the federal surplus directly to the Canada and Quebec Pension Plans. While the government pension plan is fully funded to meet its obligations for the next 75 years, allotting extra funds to the plan will provide it with a needed cushion when the baby boom generation begins to draw from the plan, beginning in the next five to 15 years.

PENSIONS

Deficit crisis clouds sunny pension returns

News from the pension front continues to be highly mixed at best.

While fund managers rejoiced in April with reports that Canadian pension funds earned a strong 4.0 per cent return in the first quarter of this year, the 12th consecutive quarter of positive investment returns, the industry continues to be dogged by the pension deficit "crisis" plaguing the nation's pension plans.

On the positive side, the boom in the resource and energy sectors and continued strong surpluses in federal budgets have channelled funds to Canadian equity markets, driving up stock prices -- and returns -- for Canadian pension funds. According to RBC Dexia Investor Services, a fund manager and advisor for institutional investors, the average Canadian pension plan generated a strong 15.8 per cent annualized return over the past three years. The 12-month performance was 14.9 per cent. Although not nearly as strong as Canadian returns, world markets also reported solid gains, ranging from six to seven per cent.

While this should add to the liquidity of most pension plans, this good news was overshadowed by the fact that a growing number of plans are facing funding deficits. In other words, the funds they have on hand cannot meet their pension income obligations to their members.

In a May 2, 2006 survey released by the Conference Board of Canada,

61 per cent of the chief financial officers of 187 organizations felt that the deficit crisis was growing and that no turnaround was likely in the near future. This compared to 43 per cent of respondents who said the same thing last year.

A result of too many firms taking pension contribution holidays in the 1990s and the huge reversals in the equity markets in the 2000-2003 period, the pension funding crunch is now being worsened by the realization by fund managers that an unprecedented demand for pension funds will soon occur as baby boomers begin to retire.

"CFOs are increasingly coming to the realization that the pension deficits of recent years have not yet turned around and they are less optimistic that plans will rebound any time soon," the Conference Board says.

Organizations that cut benefits and pensions may end up being out of favour with an increasingly selective workforce

To address the problem, 41 per cent of CFOs surveyed by the Conference Board admit that they either are, or are considering, amending their pensions. Half plan to increase their members' pension contributions. Another 39 per cent plan to cut retiree benefits. Reducing or eliminating early retirement benefits or cutting plan benefit accrual rates also top the list of deficit fighting alternatives, the Conference Board says.

However, those actions may hurt those organizations in the near to medium term.

With boomers retiring and unemployment at its lowest point in 30 years, labour shortages may be on the horizon. And organizations that cut benefits and pensions may end up being out of favour with an increasingly selective workforce.

The contradiction was made apparent in the Conference Board survey when 68 per cent of respondents indicated that traditional defined benefit pensions, the plans facing the biggest funding crunch, are a more effective employee retention tool than less expensive retirement planning alternatives such as group retirement savings plans.

"With the potential of labour shortages looming in the near future, due to the aging workforce, organizations and governments will have to examine ways to meet these challenges," the Conference Board notes. *"Older workers in particular value the benefit security and flexibility of defined benefit pension plans."*

To add insult to injury, the Canadian pension system is becoming increasingly "two-tiered", says the actuarial firm of Morneau Sobeco. Closely watched and richer public sector plans now outpace underfunded private sector pensions that have not been as closely monitored for governance practices. However, unlike private sector pensions, public sector plans have not faced the shareholder or other pressures that can divert funding from pensions issues.

When it comes to Canada's pensions, the best advice may be to follow the old adage to "make hay while the sun shines" because it appears there may be some very dark clouds on the horizon.

HEALTH & CLAIMS

Disability probabilities are high at any age

If you think disabilities only happen to other people, think again. Depending on your age, chances are at least 50-50 that you will become disabled before age 65, according to the Commissioner's Disability Table.

And, if you are disabled for more than 90 days, you will likely remain on the disability list for two to three years, the Commissioner's Table indicates.

Disability isn't the preserve of the elderly. According to the Table, the younger you are, the *higher* the probability of your being disabled before age 65.

The following charts illustrate this:

Chances of disability before age 65		
Current age	Chance of disability before age 65 (%)	Average duration (years)
25	58%	2.1 years
30	54	2.5
35	50	2.8
40	45	3.1
45	40	3.2
50	33	3.1
55	25	2.6

On a group level, the data is even more alarming. While trends vary slightly between men and women, the results from the Commissioner's Table are generally the same: for every four people in a group, the probabilities of at least one person becoming disabled before age 65 are remarkably high.

Age	Number of males in a group			Number of females in a group		
	2	3	4	2	3	4
30	74.3%	87.0%	93.4%	79.8%	90.0%	95.9%
35	70.9	84.3	91.6	77.0	89.0	94.7
40	67.3	81.3	89.3	72.6	85.6	92.5
45	62.5	77.1	86.0	66.2	80.3	88.6
50	55.9	70.7	80.6	57.3	72.1	81.8

Considering those probabilities, does your group have a disability management plan in place for your members? Your Coughlin & Associates Ltd. consultant can help develop a disability management program for your organization.



A "monster" from the 1950s returns

Until now, asbestos exposure has been considered a forgotten issue; a relic of the heyday of industrialization of the mid 20th century.

Yet, like the monsters in cheap horror movies of that time, the health problems -- and claims -- resulting from asbestos exposure keep returning. To add to the "horror," many of those being treated have had no workplace exposure to the toxic fibre.

According to reports published in the *Globe and Mail* and broadcast on CBC Radio, incidents of asbestosis, mesothelioma and lung cancer are now being reported by the children of those who, decades ago, worked in the asbestos industry and carried the dangerous fibres home on their work clothes. As well, many people may have been directly exposed to the fibre decades ago when asbestos was used in everything from household insulation to brake linings and construction materials. Its use was banned in the 1980s, although Canada still exports asbestos to other countries.

Many of asbestos' victims were exposed in the 1960s and 1970s as children or teenagers and are now being diagnosed with asbestos-related illnesses as adults.

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A "monster" from the 1950s returns

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While there is no national database of its victims, the number is likely in the thousands. According to the April 21, 2006 of the *Globe and Mail*, in the city of Sarnia alone, 109 people who had no workplace exposure to asbestos have been diagnosed with asbestos-linked scarring of lungs and other maladies since 1998. In British Columbia, approximately 600 were diagnosed with mesothelioma, a lung cancer caused by exposure to asbestos fibres, in the 13-year period from 1990 to 2003.

Others may have come into contact with asbestos fibres during building renovations or demolitions.

Since many cancers have long latency periods, many expect the number of victims of asbestos-related illnesses to continue to rise for the next decade, the *Globe and Mail* article suggests.

For plan sponsors, the message is clear. Asbestos is back. And the claimant submitting a medical claim for asbestosis or other life-threatening lung disease may be a white-collar worker in a sedate work environment miles --and decades-- away from the nearest source of asbestos.

PPN UPDATE

Alchemist Pharmacy of 1121 Meadowlands Drive, Ottawa, has joined the Coughlin & Associates Ltd. Preferred Provider Network. Their phone number is: 613-727-5959.

The number of participating pharmacies in the PPN now totals 113.

Appointed senior consultant



Lisa Broda
Senior Consultant

Veteran Coughlin staff member **Lisa Broda** has been promoted to the position of senior consultant.

Ms. Broda joined the company as an administrator in 1987 and, in 1991, was appointed technical assistant in charge of pension plans.

In 1994, she became supervisor of the company's group insurance and pension administration department and played an active role in the development and implementation of group insurance and pension administration systems for new and existing clients. She was promoted

to the Coughlin consulting organization in 2000.

Ms. Broda received her diploma in Business Administration from Sudbury's Cambrian College in 1987.

She is licensed to provide life insurance services in the province of Ontario.

Receives Civic Appreciation Award



Rainer Bloess City Councillor Joe Zadzora Consultant Rob Jellet City Councillor Bob Chiarelli Mayor

Joe Zadzora received the Civic Appreciation Award from the City of Ottawa.

The City of Ottawa presented Coughlin Managed Care Consultant Joe Zadzora with the Civic Appreciation Award for Community Activism - Adult on May 3.

The award recognizes the achievements of volunteers in the community. Joe received the award for his leadership in raising funds and community goodwill

for the Boys and Girls Club of Ottawa. For several years, Joe has been a leading organizer of that organization's annual golf tournament in support of Camp Smitty. He has also been an enthusiastic supporter of the fundraising activities of other community groups.

This year, the Brian Smith Memorial Golf Tournament is expected to net over \$100,000 to send disadvantaged youth in the Ottawa region to summer camp at Camp Smitty.

FAST FACTS

Annual premiums for the Nova Scotia Seniors' Pharmacare program increased from \$390 to \$400 on April 1. The plan's annual co-payment maximum also increased, from \$350 to \$360.

The majority of working Canadians expect pension laws will be changed in the next 10 years. An 11-nation survey on retirement attitudes conducted by the AXA Group found that 75 per cent of Canadian workers expect they will have to work longer before retiring. In addition, 70 per cent said they expect the government to reduce its public pension benefits before they reach retirement age.

Average number of days lost due to workplace injury between the ages 19 and 29: 11.

Average number of days lost due to workplace injury between the ages 50 and 59: 47

(Source: National Centre for Occupational Health and Safety)

General Motors spends more on employee health benefits than it does on steel; about \$1,500 per car. Starbucks spends more on health insurance than it does on coffee beans. That's about \$200 million annually or roughly 40 million lattes.

The US Federal Reserve says that public pension shortfalls in that country may force states to increase taxes or cut government services in order to cover their funding obligations. *"For states with relatively weak balance sheets and large pension obligations, such as Illinois and Michigan, the restructuring could be particularly painful,"* said Chicago Federal Reserve President Michael Moskow. Estimates of the state and local pension solvency gap range from \$278 billion to \$700 billion.

Adult obesity rates by country, 2003:

United States	30.6%
Canada	14.3
Germany	12.9
France	9.4
Japan	3.2

(Source: Canadian Institute for Health Information)

Adult daily smoking rate by country, 2003:

Japan	30.3%
France	27.0
Germany	24.3
United States	17.5
Canada	17.0

(Source: Canadian Institute for Health Information)

Cardiovascular disease mortality rate per 100,000, 2001:

Germany	269.2
United States	241.6
Canada	182.1
France	153.3
Japan	133.8

(Source: Canadian Institute for Health Information)

Coughlin & Associates Ltd.

We're more than a group benefits provider!



Coughlin & Associates Ltd. is Ottawa's largest employee benefits firm with 85 employees in Ottawa as well as 28 employees in its Winnipeg office. Its clients number among Canada's leading union, corporate, and public organizations, including members of the high-tech community, hospitals, school boards, municipal governments, national retailers, unions and community organizations.

In addition to providing employee benefits, we offer **individual and corporate financial services:**

- ▶ Estate planning
- ▶ Individual insurance needs analysis
- ▶ Executive Compensation Arrangements
- ▶ Individual Pension Plans
- ▶ Corporate Keyperson insurance
- ▶ Buy/Sell agreement funding options:
 - ▶ *Shareholder buyout at death*
 - ▶ *Disability buyout*
- ▶ Disability top up to group long-term disability plans
- ▶ Group registered retirement savings plans



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