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AT A GLANCE ...

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employee benefits specialists

Dark clouds on pension horizon, report says

Yet another *"perfect storm"* is brewing on the pension horizon.

According to the fifth annual *Future of Retirement* survey published by HSBC Insurance, a potentially disastrous combination of demographics, falling pension values and lack of individual planning may soon swamp pension plans across the world.

In its annual survey of 15,000 people in 15 countries, HSBC Insurance says that *"A perfect storm is confronting pension planning, created by an aging population, falling pension values, a drop in state and employer contributions and an economic downturn that is forcing people to make tough financial choices."*

According to the company, its survey indicates that nine of 10 respondents do not feel *"fully prepared"* for retirement, with 86 per cent having little or no idea of what income they'll receive when they retire.

Who's to blame?

The hard truth may be found in the mirror. According to the HSBC survey, just 27 per cent of respondents reported that they fully understood their long-term finances; 43 per cent said they have done *"some planning"* for later in life. A total of 14 per cent admitted they had done *"no planning at all."*

The pending problem isn't confined to feelings of insecurity regarding personal finances. According to the report, 43 per cent of those surveyed said they *"had no financial education"* while 47 per cent said they had *"never sought advice from a financial professional."*

Compounding the problem of financial ignorance is the recession, which has forced consumers to review their financial status. According to the *Future of Retirement* survey, only 19 per cent of respondents say they can now retire as planned. An almost equal number, 17 per cent, admit that economic conditions have forced them to reduce their retirement savings or stop them altogether.

Considering that the largest demographic segment of the population, baby boomers born between the years 1946 and 1964, are most likely to be affected by the "preparedness gap" in pension planning, the impact of the poor economy and poor financial planning could be severe both socially and individually, the HSBC report suggests.

"Now is the time for people to seriously consider boosting their pension contributions to improve their prospects of a comfortable retirement. The cost of procrastination is likely to be high," the report predicts. *"As the economic perfect storm threatens, it is important that people are encouraged to understand long-term risks and to manage them effectively."* ❧

Major changes coming to CPP

The federal Department of Finance has announced a number of major changes to the Canada Pension Plan (CPP.)

According to information released by the Department of Finance, the annual income that pensioners will be eligible to receive prior to age 65 will be cut considerably, beginning as early as 2011.

Under the plan's current rules, member incomes are reduced by 6.0 per cent for every year a member retires prior to age 65. For individuals retiring at age 60, that means their incomes are reduced by 30 per cent. The current maximum CPP benefit at age 65 is $10,905. With the 6.0 per cent annual reduction, a member retiring at age 60 receives a maximum annual income of $7,633.50.

The same principal applies when members work beyond age 65. In such cases, the 6.0 per cent per year is added to the age 65 maximum up to age 70.

Under the new rules, the maximum income reduction for those that retire before age 65 will be reduced by 7.2 per cent annually which, for those who retire at age 60, would result in a 36 per cent pension reduction from the age 65 benefit. Using today's standards, instead of receiving a maximum benefit of $7,633.50 at age 60, retirees would receive $6,929.20, an annual income cut of more than $700.

The new rules are designed to encourage workers, particularly those nearing retirement, to work past age 65. Those who do will see their annual enhancement increased by 8.4 per cent. For a plan member who defers his/her retirement to age 70, the maximum potential payout could jump to 42 per cent of the age 65 benefit, or $15,485. This compares to the $14,175 that would be available under today's rules.

Another major change to the plan will involve liberalizing its rules to allow workers to collect the CPP while continuing to work prior to age 65. The plan change is designed to allow more opportunities for phased retirements, where plan members collect the government benefit while remaining employed. In effect, the CPP would become an income supplement, particularly to part-time workers being phased out of their positions in preparation for full retirement. (Under today's rules, members must quit work and stay off the job for a least two months before they can qualify to receive the CPP benefit.)

It is recommended that CPP plan members study the impact of these changes on their potential benefits, particularly if they plan to retire near or during 2011. ❧

Impact of CPP changes
(based on 2009 benefits)

Today's benefits

- Maximum benefit at age 65: $10,905.00
- Maximum benefit available at age 60: $7,633.50
  (A reduction of 6.0 per cent per year from age 65)
- Maximum benefit available at age 70: $14,176.50
  (An increase of 6.0 per cent per year from age 65)

Benefits available beginning in 2011

- Maximum benefit at age 65: $10,905.00
- Maximum benefit available at age 60: $6,979.20
  (A reduction of 7.2 per cent per year from age 65)
- Maximum benefit available at age 70: $15,485.10
  (An increase of 8.4 per cent per year from age 65)

Brewery retirees fight for free beer

While retirees in companies like GM, Chrysler and other large manufacturers are fighting to keep their medical, dental and other benefits, the retirees of Molson Coors Brewing in St. John's, Newfoundland are fighting to keep a unique benefit: free beer.

As part of a cost-cutting program, the large Canadian brewer has announced that it will reduce the amount of free beer it provides to its retirees from the current level of six dozen bottles a month to one dozen bottles, beginning January 1, 2010.

The benefit will be phased out entirely by 2015.

Retirees at the St. John's plant held demonstrations outside the brewery's gates to protest the measure.

The reductions will save the company approximately $1 million per year, the brewery says. ❧

Travel insurance claims can take longer to adjudicate

While Coughlin & Associates Ltd. is committed to adjudicating most extended health and dental claims within 48 hours of receipt, the complexity and international nature of travel insurance claims can result in a longer and more detailed adjudication process.

There are a number of processes that must be reviewed and co-ordinated with each out-of-country travel insurance claim. Plus, a number of factors, such as nature of the illness, the location where the medical emergency takes place and the treatment involved could complicate — and delay — claims processing.

Following are some of the factors that must be considered when out-of-country claims occur:

- **Co-ordination with your provincial health plan.** Some aspects of your medical condition may be covered by your provincial health care plan. Co-ordination often involves detailed communications between the provincial plan, the out-of-country coverage insurer and medical authorities in the host country where the medical emergency occurs. This can involve language translation, billing practices of other countries, currency exchange rates and other details, which can take some time to settle, particularly if many time zones separate the Canadian insurer and the host country.
- **Privacy authorizations**. Authorizations to release medical records, submit claims on your behalf to the provincial health care plan, and transmit other private information between medical authorities in the host country, you and your insurer have to be secured in writing. This usually involves the transmission and signing of various forms in both Canada and the host country. This, too, can take additional time if the medical centre in the host country is based in a remote or isolated area.
- **Medical authorizations**. Most out-of-country travel insurers require members to receive prior authorization to proceed with a medical treatment such as surgery. In most cases, 48 hours notice is required. If the case involves a life-threatening situation and prior notice can't be provided, insurers still require appropriate notification, usually within 48 hours after the medical procedure. Failure to provide notice within the appropriate period can complicate a claim and result in delays.
- **Medications**. Depending on the medical condition, the practitioner in the host country may prescribe drugs, sera, injectibles or supplies that are either not approved for use in Canada, or are considered an over-the-counter medication in this country. In such cases, a claim may not be approved or require follow-up communications between the various parties.
- **Pre-existing conditions**. Travel insurance is designed to cover *emergency* medical expenses while outside your home province. Depending on the insurance carrier, if you have a medical condition, such as a heart condition, cancer or any other illness for which you received medical attention or hospitalization within 90 days prior to the trip, your travel insurance may **not** cover medical situations arising from that condition, *unless you have received written authorization to travel from your attending physician.* The same rules may apply if you are awaiting the outcome of medical tests or you are being monitored medically as part of an investigation that may lead to future treatment or surgery.
- **"Extra" charges**. In some jurisdictions, medical invoices include details such as dispensing fees, notes taken by attending medical professionals, doctors' transportation costs, delivery charges for medical aids or appliances, phone charges, consultation charges, form completion or similar fees. While charging for these services may be considered normal in the host country, Canadian travel insurers and/or your provincial health care plan may not cover these expenses. As a result, it may take time for you, the insurer, your provincial plan and medical provider in the host country to clarify who covers which costs.
- **Proof of travel**. Documents, such as airline ticket receipts, boarding passes, border crossing receipts or other documentation proving your departure date will have to be submitted and verified along with the medical details of your claim. This can add time to the claims approval process.
- **"Is it necessary?"** will always be the guiding principle of everybody involved in the out-of-country medical claims process. If the medical situation is not life-threatening, doesn't result from an accident, or is considered a routine treatment in your home province, you may receive questions or be asked to provide additional documentation from your physician, the treating medical doctor in the host country or other sources, all of which can result in claim delays.

If you are uncertain about your travel insurance coverage, or have a medical condition that may be cause for concern, be sure to check your plan booklet or consult your travel insurance provider before you travel outside your home province. ❧

Recession sparks wage and benefit reductions in the US

For the first time in two generations, workers in the United States are facing the prospect of wage and benefit *decreases.*

According to information released by the US Bureau of Labor Statistics, employed workers in that country are now working an average of 33.1 hours per week, the lowest level since 1964, when measurements in that category began. The low working hours reflects the loss of more than six million jobs since the recession began in 2008, the replacement of full-time positions by part-time work and a severe reduction in overtime.

According to the US government agency, the reduction in employable hours, even among those still in the workforce, has resulted in average wages being *reduced* by 6.2 per cent in the private sector and 6.1 per cent in the public sector in the first quarter of 2009.

Wage and benefit cuts are usually the last resort of employers after hiring and salary freezes and temporary layoffs.

"The job market isn't behaving the way we were taught," says David Rosenberg, chief economist at Gluskin Sheff and Associates, a money management firm. *"Even working people have less money to spend."*

Those age 45 and older have been hardest hit by the economic slowdown, the agency says. ❧

…But things to improve in Canada

While first quarter data suggests that the disposable income of Canadians paralleled trends in the United States by falling two per cent, overall trends since 2005 show that we are rapidly closing the income gap with Americans, according to a CIBC World Markets study.

Since 2005, real disposable income per capita in Canada has increased by $2,600 Canadian compared to $1,300 US in the United States.

"In a four-year span, per capital real income in Canada was able to wipe out no less than 15 years of income underperformance versus the US," says senior economist and report author Benjamin Tal. *"When measured in common currency, real per capital income in Canada relative to the US is now back to the 1990s level."*

After inflation, real wages in Canada jumped by 10 per cent since 2005, compared to four per cent in the United States. Stronger job growth in the higher paying sectors of the economy, such as the resource sector, accounts for the net income difference between the two countries.

"The strength in the commodity market should continue to favour Canadian wage earners when the recovery from the recession begins," Mr. Tal says. ❧

Think twice about benefit cuts

When facing economic pressures brought on by the recession, plan sponsors often react by cutting benefits and salaries.

But does that strategy really work?

Not necessarily, according to data released at Morneau Sobeco's *Emerging Trends* seminar for 2009. In fact, benefit cutbacks could end up costing employers and plan sponsors *more* money in a very short period of time.

In an article published recently in *Benefits Canada,* the actuarial firm cited one employer that, when faced with a business downturn, boosted the deductible on its drug plan, assuming that since drugs were a necessity among its employees, they would *"suck up the extra cost."*

At first, the strategy appeared to be wildly successful. Drug claims plummeted. Claims for anti-inflammatory medications collapsed by 45 per cent; hypertension drug use dropped by 26 per cent; anti-depressants by 25 per cent; and diabetic medication use declined by 25 per cent.

It took some time to confirm, but a clear pattern emerged: employees had not willingly accepted the increased drug costs; they had either drastically reduced their drug treatments or had cut them out entirely.

The result was predictable:

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hospitalizations and long-term disability claims soon soared. Along with that, the productivity of the remaining employees declined noticeably. The company had saved money on its drug plan but paid for it through lost productivity and increased claims experience elsewhere.

"If plan sponsors make things difficult for employees because they're only looking at the financial outcome, then the impact to an organization may be very significant," warns Morneau Sobeco Partner Joy Sloan.

The extra costs of benefit or compensation cuts may also be felt in another area: in lawyers' fees and litigation costs.

In union environments, the ability of plan sponsors to unilaterally change compensation and benefit arrangements is usually limited by a collective agreement. While that ability may appear to be less restrictive among non-union workforces, the courts, including the Supreme Court of Canada, have consistently sided with employees contesting benefit reductions, citing that unilateral reductions of salaries or benefits amount to either breaches of employment contracts or *"constructive dismissal"* of employees.

This may be particularly true when an employee or member uses a specific medical or dental benefit extensively. In such cases, an argument could be made that the coverage comprises an essential part of the individual's contract. This position could be reinforced if plan communications, booklets or other published material use terms such as *"coverage is guaranteed"* or similar language.

But, the hard reality of recessions, pending bankruptcies or market dislocations do occur and employers and plan sponsors can and do have the ability to react to them.

When hard times come and reductions in compensation and benefits have to be made, plan sponsors may want to consider the following:

1. First, clearly explain the circumstances leading to the benefit reductions. For example, rather than blaming "the recession" and expecting members or employees to accept the reductions for that reason alone, provide them with the financial information that led to the decision.
2. Give employees adequate notice of the reductions so that they can prepare for the financial adjustments that may result from the change.

Lastly, plan sponsors should be prepared to honestly ask themselves: *"What if this doesn't work?"* Answering that question could lead to everything from a further analysis of claims and expenses throughout all benefit lines, to considering the impact that potential litigation, grievances and negative publicity may have on employee relations and budgets.

Prudent planning should precede reductions in benefits or compensation. ❧

Air Canada seeks pension funding relief

Air Canada has become the latest national employer to seek relief from meeting its pension obligations.

After months-long negotiations with five of its largest employee unions, the company has developed a proposal that will allow it to defer making contributions to its various employee pension plans for 21 months. In return, the unions would be awarded Air Canada shares that will be credited to the airline's pension plan, giving them a 15 per cent share in the company.

If approved by the federal government, the plan would allow the airline to defer contributions from April 2009 to January 1, 2011, giving the company room to address other issues such as its increasing debt load and reduced travel demand resulting from the recession. It will also allow the company to raise $600 million in financing, including a minimum $200 million from Export Development Canada.

Air Canada's pension deficit is reported to be $2.9 billion, compared to $1.2 billion in early 2008.

If no relief was available, the company would be expected to contribute $110 million by the end of July 2009 and an additional $115 million in mid-August, raising the prospect of a potential bankruptcy protection filing.

The agreement impacts the pensions of more than 17,000 employees nation-wide.

Federal regulators are expected to approve the plan. ❧

Plan sponsors required to continue contributions during member leaves

Plan sponsors must continue to pay their contributions to employee benefit and pension plans, even when an employee is on leave or absent due to work-related injury, a labour arbitrator has ruled.

The dispute involves an Ontario soap manufacturer that provides an optional pension plan to its full-time employees. Under its plan, the company matches plan members' contributions to their pensions. Contribution levels for both the plan sponsor and employees are based on a percentage of employee income.

However, the company ran into difficulty with its employees' union when it reduced its share of pension contributions to zero when employees took a leave of absence or received Workplace Safety Insurance Board (WSIB) benefits.

According to the company, when an employee takes a leave of absence or receives WSIB benefits, his/her wages and resulting pension contributions effectively become zero. By adhering to the principle of matching employee contributions, employer contributions should also become zero under those conditions, it asserted.

The union disagreed, arguing that under Article 51 of the Ontario Employment Standards Act (ESA), employers are required to continue making their share of contributions to benefit and pension plans, regardless of whether plan funding comes from joint employer-employee contributions or exclusively from the employer. That principle would also apply to leaves of absence and situations involving WSIB benefits.

In his final ruling, the arbitrator agreed with the union that *"both statutes* [the Employment Standards Act and the Workplace Safety and Insurance Act] *obligate employers to pay contributions of the same quantum as the employee received prior to the leave period, regardless of the funding scheme."*

In considering the employer's argument that it was complying with its obligations by equalling the employee's total contribution of zero, the arbitrator noted that under Section 51 (3) of the Employment Standards Act, employers are required to *continue making contributions during an employee's leave of absence, unless the employee opts out of the plan.* In his ruling, the arbitrator focused on the word *"continue"*, which indicates that employer contributions are to be maintained in the same condition during a leave as prior to it. The ruling also conforms to the intent of both the ESA and the Workplace Safety and Insurance Act, which is to *"confer the protection of benefits coverage during leaves to as many employees as possible, irrespective of individual plans."*

While it is unclear whether the employer will appeal the arbitrator's ruling through litigation, it would appear that, for now, Ontario-based plan sponsors should remember that employees have the right to continue to participate in benefit and pension plans during leaves of absence and, unless they agree in writing to waive those rights during the leave period, plan sponsors are expected to continue to contribute their share to those plans. ❧

Adjustments to BC Pharmacare

The province of British Columbia has announced a series of changes to the BC Pharmacare plan.

Effective February 1, 2009, the provincial public drug care plan will provide reimbursement of 50 per cent of the brand name price for newly purchased multi-source generic drugs. This compares to a range of 60 to 70 per cent previously. The change applies only to generic drugs added to the BC formulary on or after January 1, 2009.

As well, the plan will require pharmacists to dispense the maximum days supply of a drug, unless the prescribing practitioner says otherwise.

In cases where daily dispensing of a medication is required, the provincial plan will pay one dispensing fee per patient, per drug, per day to a maximum of three dispensing fees per patient. Those with weekly dispensing requirements will be limited to one dispensing fee per patient, per week, to a maximum of five dispensing fees per patient.

The changes are expected to generate annual savings of $29 million. ❧

Good intentions can come back to haunt you

When it comes to pension plan management, is it better to "share the wealth" during good times or be prudent even in the face of mounting plan surpluses?

The plan administrators of a Manitoba university learned the hard way this year when the Pension Commission of Manitoba and the Manitoba Court of Appeal made it live up to an earlier agreement to share its plan surplus with plan members, despite the fact changes in market conditions had eliminated it.

The case dates back to 1999 when the university reported to its 600 members that its pension assets totalled more than $100 million and that its plan had a large surplus. After discussions with various stakeholders in 2000, the university's pension committee agreed to distribute $11.4 million of the surplus to plan members. The proposal was subsequently reviewed and endorsed in a vote by the university's board of regents.

But, times change.

The market crash resulting from the high tech meltdown of 2001 crushed the plan's asset values. By 2002, only $5 million of the surplus had been distributed. The university determined that the remaining $6.4 million could not be distributed due to the market downturn. The proposal was strongly opposed by the university's employees. By late 2002, they asked the Pension Commission of Manitoba to remove the university as plan administrator.

In their arguments before the Pension Commission, the employees said that by agreeing to the surplus disposition, the board of regents had created a pension benefit credit for plan members. Section 26 of Manitoba's Pensions Benefits Act (PBA) prohibits plan amendments that adversely affect pension benefit credits in respect of remuneration, service or membership of any pension plan member prior to its effective date. By reneging on the distribution of the full amount of the surplus, the university violated the PBA, the employees asserted.

The university argued that the board of regents vote did not amount to an amendment to the pension plan and that no formal amendment to the plan was filed with provincial regulators. At best, it asserted, the board of regents vote was *"conditional"* and amounted to a vote *"in principle."*

The province's Pension Commission sided with the employees, citing prior case law where pension plan amendments had been considered enforceable, even when they had not been formally registered with pension regulators.

As well, the Commission made note of actions that took place at the university after the board of regents vote. These included: the establishment of a subcommittee to determine how to distribute the surplus to plan members; the appearance of notes on the surplus distribution in the university's financial statements; and various communications to members regarding the surplus distribution.

"There is no reference to the [board of regents] *motion being conditional,"* the Pension Commission noted, *"…Therefore, it would be appropriate to conclude that if they intended the motion to be in principle they would have noted it as such."*

The Commission then directed the university to provide members with benefits in proportion to their entitlement based on the original agreement, plus interest. However, it did allow the university to remain as plan administrator despite its "serious concerns" about its conduct.

While the university went on to appeal the Pension Commission ruling through litigation, the Manitoba Court of Appeals ultimately dismissed the university's arguments, a full decade after the process began.

For plan administrators the Manitoba ruling appears to offer the following lessons:

1. That pension plan administrators have a long-term focus. Two major market crashes in less than a decade have proven that a generous plan surplus could turn into a funding deficit in a very short period of time.
2. Plan documentation such as minutes clearly identify whether proposed plan amendments are conditional or are in any way subject to change. ❧

Fast facts

- Canadians pay more in taxes than they do for food, clothing and shelter combined, according to the Fraser Institute. According to the Institute, 43.9 per cent of an average family's income goes toward tax payments while 35.7 per cent is directed to pay for food, clothing and shelter. In 1961, only 33.5 per cent of family income went to government as taxes, leaving 56.5 per cent for necessities.
- The Ontario legislature has passed a bill to ensure that low-income workers employed by temporary employment agencies have the same rights as other workers. Under the new legislation, temporary workers will be entitled to be paid during public holidays and receive the same termination and severance pay as the rest of the workforce.
- Government workers in Nova Scotia saw their contributions to that province's public service pension plan increase by 1.0 to 1.3 per cent of salary, depending on employee class, on April 13. The increase is designed to reduce the pension's unfunded liability, which currently stands at $1.65 billion.
- The percentage of new fathers in Quebec that take time off to care for newborns has jumped to 56 per cent in 2009, compared to 31 per cent in 2001. Under the Quebec Parental Insurance Plan, fathers can receive paid leave of up to 70 per cent of their earnings for five weeks. The benefit does not have to be shared with the mother.
- Ontario Municipal Employees Retirement System (OMERS) President Michael Nobrega's wish to see the OMERS plan become a "super size" pension fund has been granted. The Ontario government has passed legislation allowing that pension plan to offer third party pension administration and investment services to other pension plans. (See June 2009 edition of the *Coughlin Courier* for background.)
- The Alberta government health care plan will no longer cover the costs of chiropractic services. Until now, the provincial plan covered up to $200 per person annually.
- Statistics Canada reports that the asset value of employer-sponsored pension funds declined by $58 billion, or 6.7 per cent, in the fourth quarter of 2008. The decline in equity values sliced total pension assets to $810 billion, the agency reports.
- The Canada Revenue Agency (CRA) has ruled that employees may receive tax-free gifts and awards of up to $500 annually from their employers.
- The Old Age Security (OAS) pension will remain unchanged at $516.96 per month for the July 1 to September 30, 2009 period.
- British oil giant BP Petroleum says it will close its defined benefit pension plan, despite the fact that it has an estimated surplus of $1.7 billion, even after the 2008 market crash. The company cites increased costs resulting from a significant rise in the life expectancy of pensioners.
- Pfizer Inc. has announced that it will provide more than 70 of its most widely used prescription drugs to unemployed and uninsured Americans at no charge for up to one year. The program, which includes the top selling drugs Lipitor, Celebrex and Viagra, is available to those who have lost their jobs since January 1, 2009 and who have been using the Pfizer medication for three months or longer. ❧

PPN update

The following pharmacies have joined the Coughlin & Associates Ltd. Preferred Provider Network:

- **Cedarview Guardian Pharmacy**, located at 12-1400 Strandherd Drive in Nepean. Its phone number is: 613-823-1700.
- **St. Mary Health Centre Pharmacy**, of 2010 Trim Road in Orleans. It can be reached at: 613-590-7800.
- As well, the former *Bells Corners Guardian Drug Pharmacy* has changed its name to the **Bells Corners Pharmacy**. ❧

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