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AT A GLANCE ...

COUGHLIN & ASSOCIATES LTD.

Retirees face 50 per cent pay cut

Can you afford a 50 per cent pay cut at retirement?

Despite warnings from retirement planners that employees should save enough through pensions and private savings to generate 70 to 80 per cent of their after-tax income at retirement, most Canadians are on track to earn only half of their current income when they retire, according to a report released by Fidelity Investments Canada.

The Fidelity survey of 2,200 people age 25 or older suggests that most of today's workforce is facing a "lean" retirement at best.

"The savings of Canadians for retirement is not adequate," says Fidelity Vice-President for Economic and Retirement Research Peter Drake. *"A 50 per cent pay cut means a very Spartan retirement."*

Increasing life spans and more active lifestyles following retirement make an income replacement rate of 80 per cent a necessity, the mutual fund company says.

Not surprisingly, the Fidelity survey suggests that those age 55 or older are in the best position to face retirement. On average, that demographic group is able to replace 59 per cent of its income at retirement. At that age, child care, education, mortgage and similar expenses are usually settled, providing more liquidity for retirement savings. However, the firm notes, 59 per cent is still well short of the 80 per cent income replacement target.

Although not mentioned in the Fidelity survey, the reduced availability of defined benefit pensions, where fixed pension benefits based on salary, years of service and age are offered to plan members, could also be a factor in reducing projected retirement earnings of Canadians.

While a retirement pay cut of 50 per cent presents a tight financial future for most Canadians, we won't be alone. Similar percentages were recorded in other industrialized countries. The US led the way with the best average retirement income replacement ratio, 58 per cent. Germany followed at 56 per cent, the UK at 50 per cent, and Japan at 47 per cent.

On a national level, Quebecers have the brightest retirement future, with an average projected income replacement level of 53 per cent of pre-retirement income. The Prairies and Atlantic regions followed at 52 per cent each; Ontario at 50 per cent and British Columbia at 47 per cent. ❧

Quebec dentists threaten withdrawal from public plan

Quebec's 3,600 dentists are threatening to leave that province's publicly funded dental program if the government does not increase their fees by 35 per cent.

The government has offered fee increases of 23 per cent.

Quebec's public health care plan provides free dental services to those on social assistance and to children under the age of 10. It is the only province to offer publicly funded dental services.

Negotiations between Quebec's Ministry of Health and the Quebec Association of Dental Surgeons (QADS) have been stalled for several months.

In an effort to break the deadlock, QADS launched a series of newspaper ads warning parents that a *"nightmare"* awaits as they would have to pay for their children's dental care from their out-of-pocket expenses.

The dentists' association asserts that the government is not taking into account the rising operating costs of dental offices. The cost of new technology, wages, rents and other overhead have increased while the fees paid to them by the provincial government have remain unchanged, QADS says.

"The government is asking dentists to assume the costs of the public dental care plan themselves," say the QADS ads.

Approximately 800,000 children are covered by the public dental plan. It costs the province approximately $100 million per year.

Vioxx settlement tops $4.8 billion

Vioxx manufacturer Merck & Co. has agreed to pay $4.85 billion US to settle 26,600 lawsuits from 47,000 plaintiffs and more than 200 class action suits filed by those who claim the drug killed or injured its users.

The settlement, one of the largest in history, puts an end to a controversy that began in November 2004 when the popular arthritis medication was withdrawn from the market by the manufacturer after it was linked in clinical trials to increased incidents of heart attacks and strokes among repeat users and the elderly. (See the November 2004 and March 2005 editions of the *Coughlin Courier* for background information.)

The settlement will become effective when 85 per cent of claimants accept its terms. Payments will vary based on the injuries sustained and the length of time the drug was used by the patient.

Introduced in 1999, Vioxx and other non-steroidal anti-inflammatory drugs were widely regarded as superior to traditional medications for rheumatoid arthritis since they relieved pain without the inflammation and gastro-intestinal bleeding and discomfort associated with traditional acetylsalicylic acid (ASA)-based medications. The medication quickly grew to become one of the country's top 10 selling pharmaceuticals.

Doctors oblivious to drug prices, study says

Here's one way to reduce the impact of rising prescription drug costs on your benefit plan: get doctors to pay attention to the cost of the drugs they prescribe.

According to a study sponsored by Industry Canada and conducted by IMS Health Consulting, doctors generally have no idea of the cost of the pharmaceuticals they prescribe to patients and often prescribe expensive drugs even when cheaper medications are available.

The study investigated the impact on sales of name brand drugs when cheaper generic versions of the medications become available. While the name brand drug inevitably suffers sales declines when its generic counterpart is introduced to the market, similar or closely related medications in its same clinical class almost invariably remain untouched, the report says. In other words, doctors continue to prescribe the other more visible brand name drugs even when lower cost alternatives are available.

According to the report, doctors are bombarded with marketing materials promoting brand name drugs and do not consider costs when writing prescriptions. Invariably, it says, doctors underestimate drug prices.

"In Canada, there is no formal mechanism that credibly brings cost into the physician's decision-making process," the report says. *"Incorporating appropriate cost considerations into the medical decision making process could offer reduced costs to the health care system."*

In addition to improved education on the costs of prescription drugs, the study also suggests systems be developed to allow doctors to check respective prices of drugs before they are prescribed.

For plan sponsors, the Industry Canada study reinforces the importance of the incorporation of programs such as generic price substitution, plan formularies and spending maximums on their drug plans.

The Bay wins battle of retailers' pensioners

A decades-long struggle among the employees of some of the former giants of Canada's retail industry came to a close this summer as the Ontario Superior Court dismissed a class action suit against the Hudson's Bay Company (HBC) by the pensioners of the former Simpsons Ltd.

The complicated case had its origins in 1971 when Simpsons, once one of Canada's leading department stores, established a defined benefit (DB) pension plan for its employees. Hudson's Bay Company acquired Simpsons in 1979 and took over the administration of the pension. It closed the DB plan to new members in 1988. However, new employees were eligible to join a new defined contribution (DC) component of the plan.

In 1994, as HBC acquired Zellers Inc., a major retail chain, the plan was re-opened to new members and a separate DC element established for members of that new subsidiary. HBC repeated the move in 1998 when it acquired K-mart, another retailer. In effect, it expanded the original Simpsons defined benefit pension to include thousands of new employees, who were covered under at least three different defined contribution arrangements.

Matters become more complicated when the Hudson's Bay Company began to use the surplus from the original Simpsons defined benefit plan to cover its required contributions to the various defined contribution pensions. If effect, it relied on the DB's surplus to take contribution holidays from the DB plan. The members of the DB portion then sued, alleging that the plan amendments creating the Zellers and K-mart DC elements were improper and that HBC had improperly diverted plan assets to support them.

In its ruling, the Superior Court noted that any amendments to the pension would have to be *"consistent with the original scope and purpose of the plan."* In this case, the Court said that, when the Simpsons plan was originally created, there would have been *"reasonable expectation that in the future, the members of the plan might include not only future Simpsons employees but also any successor of Simpsons."* As a result, since the possible acquisition of other firms would have been a reasonable possibility by Simpsons, the Zellers and K-mart employees could be accommodated in the original pension plan.

The Court also ruled that it was permissible for HBC to use the DB plan's surplus to take pension holidays to support the DC portion of the plan.

"Contribution holidays are not offensive provided the holidays are taken in respect of the members of the plan and for the purposes of providing benefits that are consistent with the purposes of the plan," the Court held. It also stipulated that *"the manner in which the plan is structured and the contribution holidays taken does not remove assets from the trust fund to establish a separate trust fund for the defined contribution section and does not establish a meaningful preference or priority in favour of the defined contribution section."*

Since the various amendments to the plan continued to maintain a single trust fund arrangement, any surplus generated by the defined benefit portion could support both the DB and DC elements of the plan, the Court said.

Lastly, the judgement also confirmed that the plan could be closed by the plan sponsor and later re-opened since *"re-opening the plan and adding new members would have been the type of potential business decision contemplated when the pension was established."*

For plan sponsors, this ruling confirms the importance of clearly defining the term *"member"* as it is applied during both the period of initial plan enrolment and subsequently as the plan is adapted to accommodate changes in corporate structure, including acquisitions. As well, since the Court clearly based much of its ruling on its interpretation of the *original scope and purpose of the plan,* it would be advisable to ensure that plan intentions and long-term objectives are clearly defined in a pension plan's mission statement and other supporting documentation. ❧

Couples need to talk about retirement

Like so many other things in life, men and women see retirement from a different perspective.

According to the *Couples Retirement Study* conducted by TNS Canadian Facts for Scotiabank, Canadian couples may not be communicating to each other about their retirement goals. The April 2007 study of 487 couples with at least one partner age 50 of more and still working revealed that, while most people have given some thought to the financial aspects of retirement on an individual level, only a minority have considered the lifestyle issues they may face together after retirement.

And that could lead to trouble, say retirement planning experts.

"It is crucial that couples have honest and in-depth discussions about their life after retirement," says Bev Moir, a Scotia McLeod senior investment executive. *"While a retirement plan is vital to a successful retirement, it will not be complete until couples have a closer personal vision and agree on their lifestyle goals."*

But before you can agree on goals, you have to talk. According to the study, only 22 per cent of couples surveyed said they had thoroughly discussed their retirement needs and priorities while 55 per cent indicated they had *"a rough idea"* of how each other feels about retirement. A total of 23 per cent *"haven't discussed it at all."*

Of those that had discussed retirement, only 41 per cent confessed that they had the same outlook toward the concept. An additional 15 per cent said they could not wait to retire while 21 per cent admitted to having some concerns about the idea. Meanwhile four per cent said they hadn't given the idea much thought.

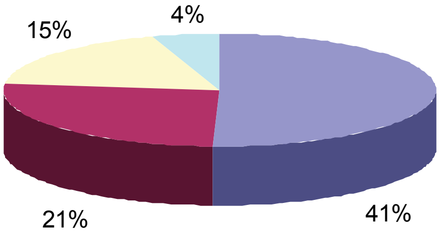
Outlook towards retirement

41% Same outlook as partner

15% Can't wait to retire

21% Have some concerns

4% Haven't given it much thought

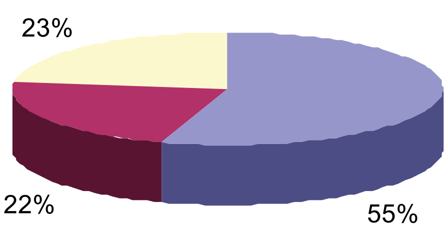


Had discussed retirement needs and priorities with their partner

22% Thoroughly discussed with partner

55% Have a rough idea of partner's needs

23% Haven't discussed it at all

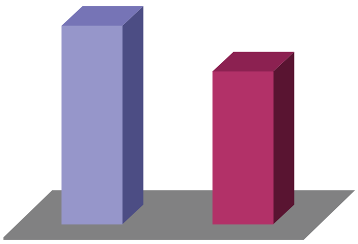


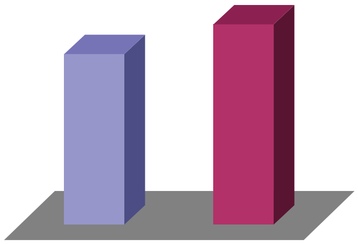
Not surprisingly, men and women had different views on retirement and retirement planning. Some examples:

Thought about the financial and lifestyle implications of retirement:

Men: 44%

Women 34%

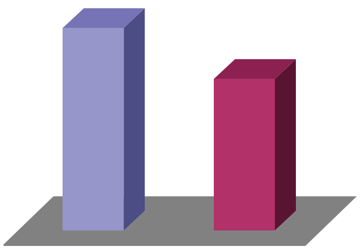




Need to save more to have a comfortable retirement:

Men: 34%

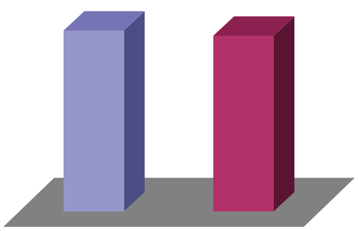
Women: 40%



Need better investments to save for retirement:

Men: 20%

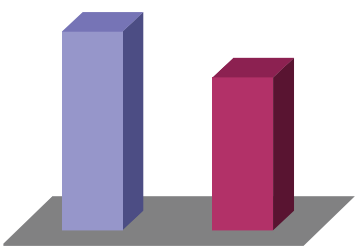
Women 15%



Age they expect to retire:

Men: 62.9

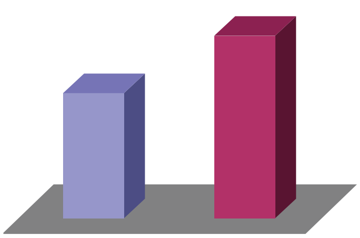
Women: 61.1



Expect to work part-time after retirement:

Men: 45%

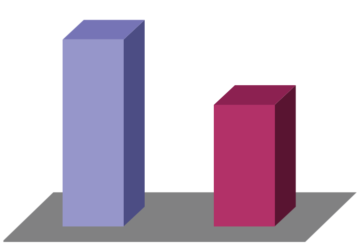
Women: 34%



Are likely to be involved in volunteer or charitable activities after retirement:

Men: 37%

Women 54%



Would be happy to spend time with just their spouse/partner after retirement:

Men: 23%

Women: 15%

Ontario changes rules for locked-in accounts

Effective January 1, 2008, financial institutions will be allowed to offer Ontario owners of life income funds (LIFs), locked-in retirement income funds (LRIFs) and locked-in retirement accounts (LIRAs) updated versions of LIFs that allow individuals to remain in the funds past age 80 without having to purchase an annuity.

Known as New LIFs, the funds are designed to provide an annual payment based on the greater of the LIF pay-out formula or the New LIF's investment earnings for the previous year. In addition, owners of registered retirement savings plans (RRSPs) and registered retirement income funds (RRIFs) will be allowed a one-time option of withdrawing or transferring up to 25 per cent of their funds to the New LIF.

Also under the new regulations, proceeds from old and New LIFS, LRIFs and LIRAs can be transferred directly to a spousal RRSP or RRIF on death of a fund owner. Plus, if the owner is over the age of 55 and has less than 40 per cent of the year's maximum pensionable earnings (YMPE) in all of his/her locked-in accounts, he/she may transfer the entire amount directly to an RRSP or RRIF rather than receive it in a lump sum. (The YMPE for 2008 is $44,900. The 40 per cent criterion for 2008 is $17,960.)

Old LIFs, which mandated the conversion of funds to an annuity at a specific age, will be phased out, beginning January 1, 2009. ❧

Quebec drug plan changes

Effective January 1, 2008, private health clinics in Quebec may administer specialized drugs that previously were available only in hospital settings.

Under Quebec Order-in-Council 900-2007, patients receiving hip or knee replacements, cataract surgery and intraocular lens implantation and associated treatments in private medical centres have the right to receive the pre and post-operative services normally associated with these surgeries, including drug injections or other treatments.

Since medications associated with these treatments can now be administered in private settings, plan sponsors and administrators could face claims for these drugs.

As part of the province's drug policy update, the legislated maximum profit margins for recognized drug wholesalers have been set in the 7.0 to 7.15 per cent range, from six to nine per cent previously. ❧

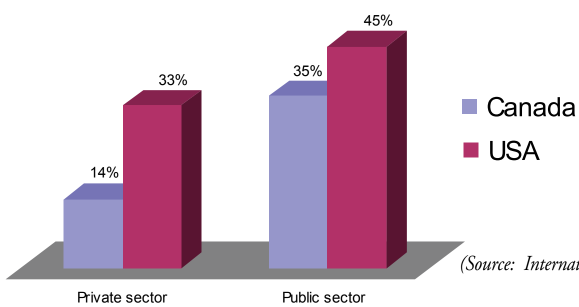
Compared to US, Canadian benefits are a "bargain"

If you are a Canadian plan sponsor and think your benefit costs are high, think again. You could be based in the United States.

According to the International Foundation of Employee Benefit Plans (IF), employee benefits are *"a bargain"* in Canada, when compared to the US.

In a survey of 1,089 US companies and 144 Canadian firms, the IF reported that 33 per cent of US private sector employers estimate that 35 per cent or more of their payroll budgets are directed to employee benefits. In contrast, only 14 per cent of Canadian private employers spend that amount on benefits. While the expense ratios were much closer among public sector employers, the same trend was still apparent with 45 per cent of American public sector employers paying more than 35 per cent of payroll for benefits, compared to 35 per cent in Canada.

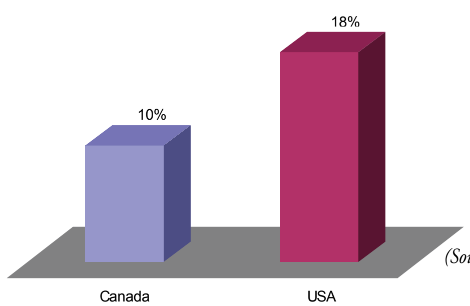
Spend more than 35% of payroll on benefits



(Source: International Foundation of Employee Benefit Plans)

Similar trends were seen at other contribution levels.

Spend 31 to 34% of payroll on benefits



(Source: International Foundation of Employee Benefit Plans)

While it could be argued that Canada's universal health care system may account for the reduced expenditure by Canadian firms on health care and other employee benefits, the IF survey found that 94 per cent of Canadian employers surveyed still provided health care insurance to their employees, suggesting that the cost differential does not reflect reduced demand for health care benefits in Canada.

The more conservative nature of Canadian employers was also seen in their opinions on flexible benefit arrangements and pensions. Only 47 per cent of Canadian employers used flexible benefits compared to 81 per cent of American organizations. That trend was reversed when it came to pensions as 61 per cent of Canadian plan sponsors reported that they offered more conservatively based defined benefit pensions compared to 47 per cent in the US. ❧

2008 adjustments to CPP and EI programs

The maximum pensionable earnings for Canada Pension Plan (CPP) contributions will increase in 2008 from $43,700 to $44,900. The maximum employer and employee contributions levels will be $2,049.30, or $4,098.60 for the self-employed.

Contribution levels remain unchanged at 4.95 per cent of pensionable earnings to a combined employer-employee maximum of 9.9 per cent.

Employment insurance rates for employees in 2008 will reduce to $1.73 per $100 of insurable earnings from the 2007 level of $1.80. The employer rate will decline from $2.52 to $2.42 per $100 of insurable earnings. In Quebec, the employee and employer rates per $100 of insurable earnings will be $1.39 and $1.95 respectively.

The maximum insurable earnings level for 2008 will increase to $41,100, from $40,000. The maximum EI benefit will be $435 per week. ❧

Alberta, BC to review pension laws

Alberta and British Columbia have established a joint panel to review their pension standards.

The review by the two provinces will examine the role of pension plans in attracting and retaining workers in the future as well as review ways to encourage more investment in pension plans in both provinces.

The six-member panel will also study ways to harmonize pension legislation between the two jurisdictions.

This review will be the first examination of Alberta's pension act in 20 years and the first in 15 years for BC.

Alberta is responsible for 770 pension plans with more than $25 billion in assets. British Columbia regulates almost 800 pension plans representing assets of $27 billion. Together, the two provinces' plans cover more than 823,000 active and former employees. ❧

Now, you *can* get LTD coverage after age 65

With passing of legislation outlawing mandatory retirement at age 65, corporations are increasingly retaining key employees and executives after the "normal" retirement age of 65. According to Statistics Canada, more than 300,000 Canadians over age 65 were working last year, up from about 200,000 in 1996.

From the employer's perspective, it may be difficult to replace the skills of older individuals who leave. Meanwhile, employees may want to continue working, either because they enjoy the work or they need the money, or perhaps both.

In any case, the group long-term disability (LTD) coverage that employees rely on to protect their earnings in the event of a serious illness or injury, expires at age 65. Plus, individual disability income insurers do not offer coverage at that age.

To respond to the needs of those key employees or executives who reach age 65 and lose their group LTD coverage, **Coughlin & Associates Ltd. has secured the services of a leading distributor of special risk life, disability and accident insurance products. We can now help individuals age 65 and over to obtain LTD coverage**.

For more information, contact Jackie Moulton at Coughlin's Individual Financial Services department at 613-231-2266 ext. 251 or email jmoulton@coughlin.ca ❧

UK claimants face lie detectors

Claimants for government health care benefits in the United Kingdom will soon have to submit to a lie detector test as part of the adjudication process.

The system, which is already operational in the city of Lincoln, forces claimants to submit to a series of questions by phones linked to a voice-risk analysis system designed to detect stress in a caller's voice and, with it, potential lies.

According to the UK Department of Work and Pensions, the new monitoring program will be tested on all new and long-term claimants beginning in January 2008. Designed to reduce benefit fraud, the same voice stress technology has been successfully used to trap fraudulent housing benefit claims throughout Britain. Fraud cases in that area have been reduced by two-thirds since its introduction in 2001.

The plan has been widely criticised by union groups and some members of parliament as *"Big Brother gone mad."* Critics say that benefit claimants with health problems and those who don't speak English as their first language are most likely to be under stress when submitting a claim through the new system, opening them to accusations of benefit fraud.

"Subjecting benefit claimants to untested lie detector technology will not help people into work and could instead pressure genuine claimants into withdrawing their claims," says Trades Union Congress General Secretary Brendan Barber.

If successful, the new technology is expected to be introduced throughout the UK. ❧

Fast facts

- The dispensing fee for pharmacists in Quebec has increased to $8.12 per prescription. The province's pharmacists can also charge a daily dispensing fee of 27 cents per day to a maximum of $24.30 for prescriptions covering 90 days or more.
- Saskatchewan has increased its pharmacy dispensing fees to $8.63 per prescription from $8.46 previously.
- Alberta has announced that its provincial health care plan will now cover people age 19 to 64 who visit optometrists for eye infections. The plan also covers glaucoma, cataracts, hypertension and retinal disease.
- Nova Scotia has introduced an amendment to its pensions legislation to ensure that all pension plans are fully funded when a company either winds down its pension plan or leaves the province. If passed, the legislation will be retroactive to June 1, 2007.
- A 2006 labour force study by Statistics Canada indicates that registered nurses have the highest rate of absenteeism among 33 occupations surveyed. According to the government agency, nurses have a 7.4 per cent absenteeism rate compared to a 5.4 per cent rate among labourers, a 4.3 per cent rate for clerical workers and a 4.0 per cent level for teachers and professors. Those who work in the natural and applied sciences had the lowest rate at 2.2 per cent. The national average for all occupations was 4.5 per cent.
- The retirement tsunami has begun. According to the US Social Security Administration, the first American baby boomer has filed for Social Security benefits. Kathleen Casey-Kirschling, who was born on January 1, 1946, will become eligible for benefits this coming New Year's Day. More than 80 million American boomers will become eligible for benefits over the next 20 years.
- Approximately 500,000 Canadian workers age 26 to 64 have experienced a major depressive episode since 2002, according to the Canadian Community Health Survey. Women were twice as likely to report depression at work than men, the survey says.
- The average weekly earnings of a Canadian employee in September 2007, as reported by Statistics Canada: $772.52.
- The Committee for Economic Development of Australia, an economic research organization, has recommended extending that country's qualification age for government pensions from its current level of age 65 to 67.
- A Booz Allen study of American health care insurance trends says that, by 2020, up to 60 per cent of those with private health care coverage will be enrolled in *"high cost"* health plans, with premiums absorbing more than 10 per cent of their after-tax income. The study suggests that middle class families will be forced to trade-off medical coverage with their other financial commitments. ❧

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