COUGHLIN employee benefits specialists
COURIER
JANUARY 2012

AT A GLANCE ...

COUGHLIN employee benefits specialists

Government tables PRPP legislation

The federal government has tabled legislation to create a new pooled pension plan for workers without workplace pensions.

The new pooled registered pension plan (PRPP), is designed to allow workers employed by organizations that do not offer pension plans or group registered retirement savings plans (RRSPs) to save for retirement privately.

Under the PRPP proposal, employers will be required to offer the new retirement savings plans to their employees, however, they would not be required to contribute to the plans or match their employees' contributions, as is done with some group RRSPs.

In addition, the administration of PRPPs will be offered by private financial institutions such as banks, credit unions, fund companies and other financial institutions.

The PRPP will be completely voluntary and will not operate as a locked-in retirement account (LIRA) or similar savings vehicle. Using banks and other private companies to manage the accounts will provide plan participants with a measure of pension portability.

However, the plans will be subject to management fees by the banks and other financial administrators.

The PRPP will not feature survivor and disability benefits or a specific income at retirement, the way the Canada Pension Plan does.

Since the provinces have jurisdiction over their own pension regulations, they too have to pass enabling legislation before the PRPP can become a reality. That is not expected until at least mid-2012.

Mirroring the federal government's position on pension reform, the Canadian Bankers' Association (CBA) called the PRPP proposal *"a simple, efficient and cost-effective opportunity to save for retirement."*

"A key benefit is that it builds on the existing expertise and infrastructure of the private sector," says CBA President Terry Campbell.

However, enthusiasm for the new pension plan was not shared by many labour organizations and provinces like Ontario that favoured the expansion of the Canada Pension Plan (CPP). It offers a defined benefit at retirement to all workers and features joint employer-employee contributions as its primary funding mechanism.

As late as December 2010, many provinces and labour groups had rallied around a proposal that would have expanded joint employer-employee contribution levels from the current level of 9.9 per cent of eligible employee earnings to 12 per cent or higher. In return, the CPP pension payout would increase from today's level of 25 per cent of the yearly maximum pensionable earnings (YMPE) to approximately 35 per cent of the YMPE. (See the December 2010 issue of the *Coughlin Courier* for background.)

"It's really nothing more than a piecemeal approach that rewards banks, insurance companies and mutual fund companies instead of offering real retirement security options for everyone," says Canadian Labour Congress President Ken Georgetti. *"PRPPs will be far inferior to an expanded Canada Pension Plan in providing retirement security for Canadians."*

The federal government proposes the following tax rules for PRPPs:

continued on page 2

...continued from cover

Government tables PRPP legislation

- plan contributions will be eligible for tax deductions. However contributions will be limited to an individual's RRSP annual contribution limit. (In 2012, the maximum RRSP contribution will be 18 per cent of employee earnings to a maximum of $22,970);
- employer contributions, if any, will also be limited to the RRSP maximum;
- employers will not be required to make a minimum contribution to a PRPP;
- employer contributions will be excluded from salaried compensation;
- administrators will not be allowed to contribute to investments where a member has a significant interest. No more than 10 per cent of a member's plan assets can be placed in a particular business; and
- no employee-employer relationship will be required for an individual to participate in a PPRP (thereby permitting the self-employed to participate in the plan.)

Pension experts call for expanded CPP

A blue chip panel of pension experts is calling on federal Finance Minister Jim Flaherty and his provincial and territorial counterparts to commit to expanding the Canada Pension Plan (CPP), rather than developing the new pooled registered pension plan (PRPP.)

In a letter to Finance Minister Jim Flaherty, former Canada Pension Plan Chief Actuary Bernard Dussault and five other pension and economic experts warn that without an expanded CPP, middle-income earners face a substantial reduction in their standards of living at retirement.

According to the panel, to date, voluntary savings programs like registered retirement savings plans (RRSPs) have not been fully utilized by Canadians. Adding yet another voluntary savings program like the PRPP is unlikely to make up the pension shortfall.

"Several recent studies project that a significant proportion of middle-income earners risk a non-trivial reduction in their living standards upon retirement," the letter signed by Mr. Dussault and the other signatories states.

The other signatories include: Ontario Expert Commission on Pensions Member Bob Baldwin; former federal Finance Department Pensions Consultant Keith Horner; Simon Fraser University Public Finance Research Chair Jonathan Rhys; Pension Commission of Ontario Consultant Monica Townson; and University of Ottawa Population Health Research Chair Michael Wolfson.

Changes to government benefits

Effective January 1, 2012 a number of changes will be made to government benefit plan maximums. The changes include the following:

- The Yearly Maximum Pensionable Earnings (YMPE) for Canada Pension Plan (CPP) contributions will increase to $50,100, from $48,300. The maximum joint employee-employer contributions maximum remains 9.9 per cent of eligible earnings. The maximum employer and employee contribution will be $2,306.70 each. The maximum self-employed contribution will be $4,613.40.
- The maximum CPP benefit will increase to $987.67 per month from $960 per month.
- The insurable earnings maximum for the Employment Insurance (EI) program will increase to $45,900. Meanwhile, premiums will increase by five cents per $100 of insurable earnings for employees to $1.83 per $100, or $839.97 annually, while employer contributions will increase by seven cents per $100 of employee insurable earnings to an annual maximum of $1,175.96 per employee.
- The maximum RRSP contribution will increase to 18 per cent of employee earnings to a maximum of $22,970.
- The maximum contribution limit for defined contribution pension plans will increase to 18 per cent of employee earnings to a maximum of $23,820.
- The maximum pension adjustment limit for members of defined benefit pension plans will increase to $2,646.67.
- The maximum Old Age Pension (OAS) benefit will increase to $540.12 per month.
- The federal corporate income tax rate will decrease from 16.5 per cent to 15 per cent.

Federal pension funding gap now $80 billion, report says

The federal government is underestimating its pension liabilities by more than $80 billion, the C.D. Howe Institute says.

In a report issued December 13, 2011, the research institute suggests that the government's unfunded pension liabilities are being under-reported because the government is not using "real world" assumptions on its investment returns.

According to the Institute, the government uses an assumed rate of return of 4.2 per cent on 20-year federal real return bonds, instead of the more realistic 1.15 per cent. Based on that difference, the amount required to meet its pension payout obligations should be $226.6 billion, not the $146.1 billion published in the government's public accounts estimates.

While this problem is not new (the divergence between the reported and fair market value of pension obligations began in the 2000-01 fiscal year), the difference in the real vs. assumed obligations has grown over the years as interest rates have remained at historic lows.

"This re-statement of the debt affects Ottawa's annual budget balances: the surpluses reported from 2001 to 2008 were smaller...and the deficits since then were much larger. In 2010-11 alone the deficit would not have been the $31 billion reported but half again larger; almost $47 billion," the report, entitled *Ottawa's Pension Gap,* says.

The gap represents more than a mathematical exercise in actuarial assumptions, the C.D. Howe Institute suggests: it will ultimately result in increased taxation to meet the growing obligation. Ironically, most taxpayers do not qualify for similar pension entitlements as those provided by the three major federal pension plans.

According to the Institute, the current contribution limits on RRSPs and defined contribution pension plans (18 per cent of earnings to a maximum of $22,970 and $23,820 respectively), cannot possibly come close to mirroring pension income benefits now being provided by the federal employee pension plan.

"At the time of writing, the yield on the real return bond was a mere 0.57 per cent. At that yield, the required savings rates [compared to the federal Public Service, RCMP or Canadian Forces pension plans] *would have to be 43, 53 and 52 per cent,"* the Institute says. *"Unhappily, those Canadians who must prepare for retirement in a much less congenial environment are also on the hook for the growing unfunded liability in the federal plans."*

The Institute report concludes by making a number of suggested pension reforms including the following:

- changing federal pension calculation formulas to career average plans instead of a final salary base;
- establishing a uniform, lifetime limit for accumulated retirement wealth for all Canadians;
- increasing the tax-deferred savings room available to all Canadians so that non-government employees have a chance to save for retirement at a comparable level to federal employees; and
- ensuring that funding for federal government pension plans match their payout obligations.

"To let this unfunded obligation expand is unconscionable — all the more so to the extent that tax and other laws limit non-federal employees' opportunities to build retirement wealth, some of which may be needed to bail out the federal plans," the report concludes. ❧

CPP deduction requirements change

Effective January 1, 2012, employers must deduct CPP contributions for all employees aged 60 to 65, *including those already receiving CPP or Quebec Pension Plan retirement pensions* that did not contribute to the plans previously.

In addition, employers must also deduct CPP contributions for all employees who are 65 to 70 years of age, unless the employee elects not to contribute to the CPP. To decline making contributions, the employee must provide the employer with a signed and completed copy of Form CPT30, *Election to Stop Contributing to the Canada Pension Plan, or Revocation of a Prior Election.* He/she must also send the original to the Canada Revenue Agency (CRA).

Employees cannot contribute to the CPP after the month in which they turn 70 years of age.

Failure to deduct CPP contributions or to remit CPP contributions to the CRA as required could result in an assessment by the Canada Revenue Agency that could include penalty and interest charges. For more information, go to cra.gc.ca/payroll and select *"Penalties, interest, and other consequences."*

Employees working in Quebec and other workers not subject to the CPP will not be affected by these changes.

For more information about what the changes mean for employers, visit cra.gc.ca/cppchanges-employers. ❧

Boomers may swamp the OAS

The demographic tide of retiring baby boomers will push Old Age Security (OAS) payments past the $100 billion level within 20 years, according to secret federal government documents published by *The Globe and Mail.*

According to the documents published by the Department of Finance, OAS payouts are expected to reach $108 billion by 2030 compared to $36 billion today.

The OAS benefit, currently $540.12 per month, is paid to every eligible Canadian citizen beginning at age 65.

According to a June 2011 brief prepared for Finance Minister Jim Flaherty, the cost of providing the benefit will increase sharply as boomers retire; from $36.5 billion in 2010 to $48 billion in 2015, finally peaking at $108 billion in 2030. The number of OAS recipients is expected to swell from today's level of 4.7 million people to 9.3 million in 2030.

Funding the plan is going to present serious challenges to the federal government in the coming years, *The Globe and Mail* article suggests. Unlike the Canada Pension Plan (CPP), the OAS has no plan reserves or member contribution mechanism. Its expenses are paid directly from general government revenues.

To cope with a potential funding shortfall, governments may have to consider raising taxes or taking the required money from other sources. The December 22, 2011 article suggests that the federal government's recent announcement to no longer provide automatic six per cent funding increases to health care transfers to the provinces may be an attempt to find extra funding for the OAS.

Increasing the OAS eligibility age from 65 to 67 is also being considered and may be introduced as early as the March 2012 federal budget, the article suggests. ❧

Pension plans underestimate life expectancy, re-insurer says

Canadian pension plans are not putting aside enough money to account for the longer lifespans of plan members, a report by Swiss Re, an international re-insurer, says.

According to the re-insurer, more than $1 trillion in pension assets and annuity reserves are exposed to additional longevity risk – and potential solvency problems.

"The liabilities of these plans are being undervalued, largely because prospective mortality improvements are being understated," the re-insurer says. *"...From a financial perspective, the risk and worry that we have about outliving our funds is a real concern, and for defined benefit pension plans, that is a major concern."*

According to the report, many pension plans use US data from the late 1980s in their life expectancy calculations. However, Canadian life expectancy has consistently been greater than that of Americans. According to data compiled by the United Nations, the average life expectancy of Canadians is 80.7 compared to 78.3 for Americans.

Average life expectancy has increased from 65 in 1965 and is projected to reach 90 by 2100.

Underestimating life expectancy by just one year can increase a pension fund's liabilities by as much as five per cent, Swiss Re says.

"With a $1 trillion longevity risk, if you have people on average living just one year longer, that's about a $50 billion change," it says. ❧

Depression "a tsunami of economic loss"

The year 2012 may be the year plan sponsors begin to tackle the issues of workplace stress and depression.

While stress in the workplace is hardly a new issue, the impact of workplace cutbacks, increasing workloads and the stresses they cause on work-life balance among employees is beginning to be reflected in more short and long-term disability claims.

According to the Towers Watson *2011/2012 Staying@Work* survey, stress-related mental health conditions, such as depression, continue to be the most common reason cited for short-term disability (STD) claims. Mental health conditions are cited as a direct cause or contributor in 83 per cent of STD claims and 85 per cent of long-term disability (LTD) claims, according to the survey. In addition, mental health conditions often accompany or complicate other chronic illnesses such as musculoskeletal illnesses, cancer and other conditions.

"Over the past few years, we've seen employers asking employees to work longer hours and to do more with less, leaving less time for health activities like going to the gym or eating properly," the report says. *"At the same time, people are worrying about job security and their personal wellbeing. These factors can add up and take a serious toll on both physical and mental health as well as an increase in absence from work and presenteeism... The consequences — higher health care costs, reduced work performance and lost productivity — can be significant."*

The Towers Watson conclusions were mirrored by the Global Business and Economic Roundtable on Addiction and Mental Health's call for a 10-year, $10 billion investment by government and private companies to find a cure for depression and to improve mental health in the workplace.

Led by former Canadian Finance Minister Michael Wilson, the Roundtable says that mental illness in the workplace is a *"tsunami of economic loss,"* accounting for $51 billion in lost productivity throughout Canada and the United States, or four per cent of gross domestic product.

According to a report released by the Roundtable, lack of fairness and opportunity in the workplace and increased job insecurity resulting in "chronically stressful" workplaces have pushed rates of depression to 18 to 25 per cent of Canada's working population, or three to four million people.

"Senior people, senior executive teams have to recognize that this is an illness that affects a significant number of their employees," Mr. Wilson says. *"What people have to realize and accept is that it is an illness, not a weakness."*

And problem isn't confined to Canada or the United States.

According to the Organization of Economic Co-operation and Development (OECD), 30 to 50 per cent of disability claims in the 34-nation organization involve mental health. Again, increased workplace stress is considered the main factor for the increased claims activity.

"Increasing job insecurity and pressure in today's workplaces could drive a rise in mental health problems in the years ahead," according to the OECD's report on mental illness in the workplace published in September and October of 2011.

The organization says that depression alone is becoming a leading cause of death, disability and economic dislocation and predicts that, by 2020, it will be the second leading cause of illness in the world.

The OECD report urges employers to improve working conditions to reduce stress levels, introduce more systematic monitoring of disabilities and sick leaves and to reduce potential for workplace conflicts. ❧

10 per cent of adults may have diabetes by 2030

The International Diabetes Federation predicts that one in 10 adults may have diabetes by 2030.

In a report issued November 13, 2011, the Federation, which represents 160 diabetes research and awareness organizations throughout the world, says that more than 550 million people are expected to have the disease within 20 years.

The largest increase is expected to occur in Africa, where a 90 per cent jump in cases is predicted.

An increase in the number of the elderly and increased obesity will be the major contributors to the projected rise in the number of diabetics worldwide.

Type II diabetes, the most common form of the illness, has been linked to aging, weight gain and sedentary lifestyles. The disease can also contribute to or complicate other medical conditions such as circulation programs, infections and kidney disease.

Should the Federation's forecasts come true, plan sponsors should expect increased numbers of diabetes-related claims in the coming years. ❧

Health care spending tops $200 billion

Health care spending costs are expected to top the $200 billion mark, once 2011 final results are reported, according to the Canadian Institute for Health Information (CIHI).

If the CIHI forecasts hold, the crossing of the $200 billion barrier will mean that health costs increased by $7 billion in 2011. On a per capita basis, Canadians spend $5,800 per person on health care.

The good news in the CIHI's *National Health Expenditure Trends* report covering the years 1975 to 2011, is that health care spending is expected to increase by 4.0 per cent, the lowest level recorded since 1996. The average annual growth rate in health care spending between 1998 and 2008 was 7.4 per cent.

"While the pace of growth appears to be slowing down, it's important to understand how we reached the $200 billion mark," says CIHI President John Wright.

According to the CIHI report, Canada has a tendency to spend more on health care during periods of economic growth. The largest receivers of public health care money are hospitals, which get 37 per cent of allotted funds. Of that, 60 per cent is dedicated to hospital staff compensation. Physicians follow in second place, receiving 20 per cent of public health care funds. Physicians' expenditures increased by 6.8 per cent per year between 1998 and 2008, the CIHI says.

Increased use of health care services, fostered by population growth and an aging population, is also adding strain to health care budgets, the report suggests. ❧

Fewer drugs covered under provincial formularies

A national review of provincial and territorial drugs indicates that fewer new prescription medications are being covered by government drug care plans.

According to a study by the University of Alberta published in the *Journal of the Canadian Medical Association,* the number of new prescription medications approved for provincial formulary coverage dropped substantially after the 2003 formation of the Common Drug Review (CDR), the national agency responsible for assessing the efficacy, safety and cost-effectiveness of new drugs.

Approximately 200 new drugs were approved for use in Canada over the past 10 years but only 53 were accepted for inclusion in provincial or territorial formularies by the CDR.

The University of Alberta study says that prior to the formation of the CDR, new drugs comprised between 47 and 66 per cent of provincial and territorial drug formularies. Today that number ranges from 12 to 40 per cent.

However, that reduction may not necessarily be a bad thing, according to study author Dr. Dean Eurich.

"I don't know that it's actually a detriment to the public," he said. "In many medication categories, for instance, blood pressure drugs or anti-depressants, there may be five or six similar versions of the drug already on the market. Adding another and typically more expensive brand of these 'me too' drugs may not be in the public interest."

Changes in pharmaceutical manufacturing processes may also be influencing the composition of provincial formularies, the University of Alberta researcher says.

According to his report, pharmaceutical companies are now focusing on the research, development and introduction of complex, specialized drugs to treat specific diseases or conditions rather than treatments for generalized primary care conditions such as high blood pressure.

"The drugs that are coming to market may still be valuable but they're for very specialized types of care," Dr. Eurich notes. ❧

Individual insurance rates set to rise

The cost of permanent individual life insurance is expected to increase by approximately 10 to 12 per cent, according to industry experts.

Facing an environment with interest rates and bond yields at historic lows, insurers are finding it increasingly difficult to generate sufficient reserves to meet the lifetime financial commitments inherent in permanent insurance policies such as universal life, whole life and term to age 100 plans.

Permanent insurance plans offer life insurance coverage at a fixed rate for the life of the policyowner. Unlike term insurance, which provides coverage for a defined period, rates for permanent insurance are not adjusted at fixed intervals. As a result, insurers often face decades-long commitments to pay benefits in a financial environment where generating investment returns to meet those commitments is increasingly challenging.

In addition, Canadian insurers will soon be required to conform to international financial reporting standards that will require them to set aside greater reserves to meet their long-term commitments.

One major Canadian insurer increased its rates for its universal life insurance product in December 2010 only to increase its rates again by nine to 12 per cent in October 2011. Other life insurance companies are expected to do the same.

Due to the more short-term assumptions in their underwriting, the trend toward higher rates is not expected to have a major impact on individual term or group life insurance plans. ❧

Need back issues of the Coughlin Courier?

Just scan this icon with your *iPhone®* or *Blackberry®* device to go directly to a listing of previous issues of the *Coughlin Courier*. ❧

Fast facts

- Alberta has become the first province to drop its investments in the tobacco industry. The Alberta Investment Management Corporation has sold the $17.5 million of tobacco industry stocks held by that province's public sector pension funds and the Alberta Heritage Savings Fund. Alberta is filing a lawsuit against the industry to recover the health care costs associated with smoking-related illnesses.
- British Columbia has announced that, effective February 18, 2013, it will add Family Day to its list of statutory holidays. It joins Alberta, Saskatchewan and Ontario in celebrating that holiday, which falls on the third Monday in February. Manitoba celebrates Louis Riel Day while Prince Edward Island marks Islander Day on the same date.
- The average weekly salary for Canadian non-farm workers rose by 1.9 per cent this past year to $877.28, Statistics Canada reports.
- Statistics Canada reports that for the first time in Canadian history, cancer was the leading cause of death in each province and territory in the country. Cancer accounted for half of the 238,617 deaths recorded in 2008, the agency says. Heart disease was the second leading cause of death in all jurisdictions except Nunavut. Suicide is the second leading cause of death there.
- The leading causes of death by age category in 2008, according to Statistics Canada:

Under one year:	Congenital abnormalities
Age 1-34:	Accidents
Age 35-84:	Cancer
Age 85+:	Heart disease

- The Atlantic Institute for Market Studies says that the pensions for members of Nova Scotia's legislature should be eliminated or radically changed. The legislators have the richest pension plan in the country, the Institute says. Nova Scotia's politicians receive 75 per cent of their salary in pension income and become eligible to draw a retirement income after six years in office.
- Canadians contributed $33.9 billion to registered retirement savings plans (RRSPs) in 2010, Statistics Canada reports. Approximately six million people made RRSP contributions in that year.
- Quebec has passed Bill 41, allowing pharmacists to extend and adapt prescriptions, treat minor conditions, order and analyze lab tests and administer certain medications under special conditions. Nova Scotia and New Brunswick passed similar legislation in early 2011.
- The government of China says it is considering extending maternity benefits for women workers from the current 90 days to 98 days. The new maternity benefits will also exempt pregnant women from doing certain strenuous jobs in underground mines and working near hazardous materials. There are 137 million female employees in China. ❧

PPN update

Barrhaven IDA Pharmacy has joined the Coughlin & Associates Ltd. Preferred Provider Network (PPN.) It is located at 103-1221 Greenbank Road, Nepean. Phone: 613-825-1200.

Elmvale Pharmacy, of 1024 Pleasant Park Road in Ottawa, has joined the Coughlin PPN. Its phone number is: 613-733-2211.

Pioneer Park Pharmacy, located at 123 Pioneer Drive in Kitchener, Ontario has joined the Coughlin PPN. Phone: 519-748-4525. ❧

The Coughlin Courier is published by Coughlin & Associates Ltd.
Board of directors: Brian Bockstael, Kirby Watson, Mark Hogan, Brent Moore & Ken Kaitola
Editor: David Whitbread **Graphic designer:** Victor Lima