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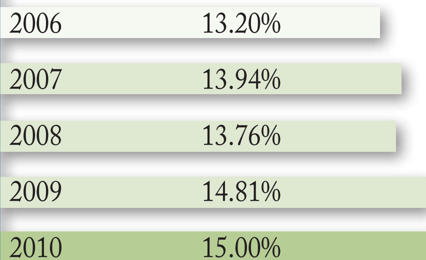
Trend factors maintain their double-digit pace

Canadian health care trend factors continue to rise at double-digit rates, according to the 2010 edition of the *Canadian Health Care Trend Survey.*

Based on information compiled by 13 different insurers, the overall blended health care trend, including utilization and inflation, is 15.0 per cent, the highest in the past five years. The 2010 trend factor is based on a typical plan average of 70 per cent drugs, 25 per cent medical and five per cent hospital expenses.

The survey's trend factors from 2006-2010 follow:

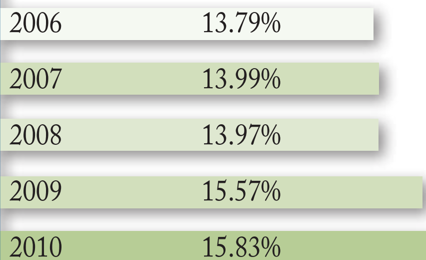
Blended health care trends 2006-2010



Prescription drugs

As in previous health care trend surveys, drug costs continued to lead the way. While trends jumped from 2008 to 2009, they moderated somewhat in 2010, a result attributed to the increased use of generic medications.

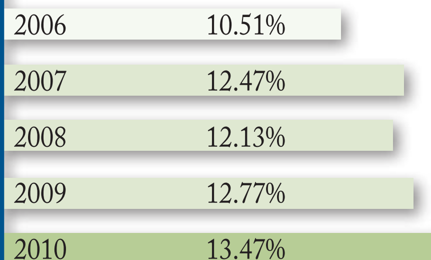
Prescription drug trends 2006-2010



Medical services

Despite some moderation of trend rates from 2007-2009, medical services trends rose by 13.47 per cent in 2010, compared to the 12 per cent reported previously. The growing use of paramedical services and non-traditional medical treatments are considered the primary reasons for the increase.

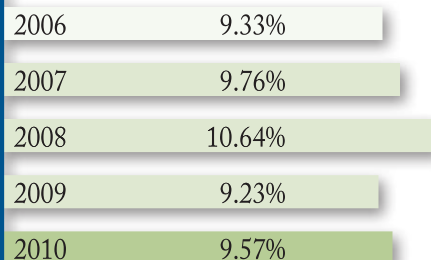
Medical service trends 2006-2010



Hospital services

With the exception of 2008, hospital trends have generally remained range-bound from 9.23 per cent to 9.76 per cent over the past five years. The year 2010 continued that pattern with a 9.57 per cent result. This could reflect the robust cost control measures introduced by hospitals across Canada over the past five years.

Hospital services trends 2006-2010



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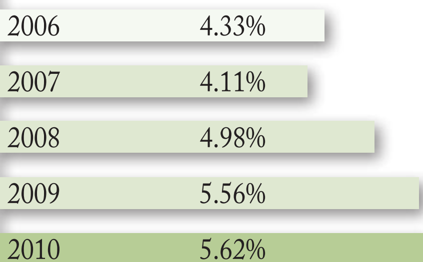
Trend factors maintain their double-digit pace

Dental utilization

The measure of dental utilization also remains relatively unchanged from 2008. Since the provincial dental associations set dental fees, inflation is not factored into this measure.

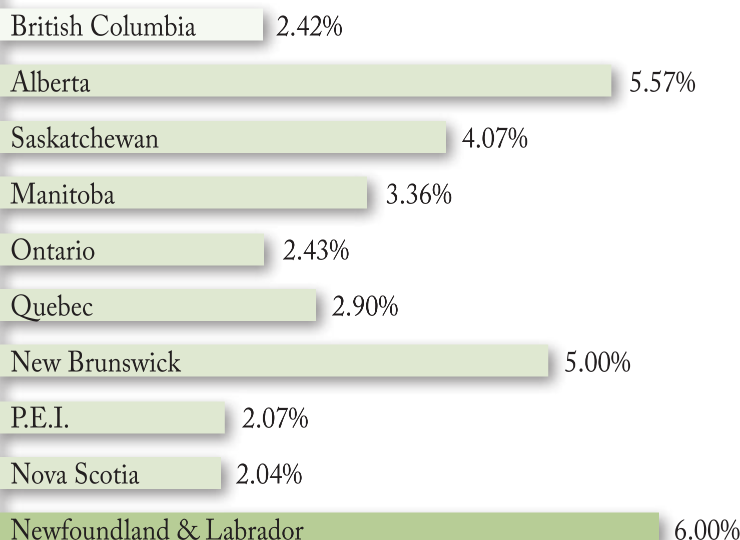
Dental trends 2006-2010



Dental fee guide increases

The 2010 *Canadian Health Care Trend Survey* also showed the average increase in dental practitioner fees by province, as set by the various provincial dental associations. Newfoundland & Labrador reported the highest fee increase at 6.0 per cent. Nova Scotia reported the smallest fee increase, with a 2010 increase of 2.04 per cent.

Average dental fee guide increase by province 2010



Cancer care costs an extra $1,000 per month

Caring for a loved one with cancer can cost as much as $1,000 per month in additional medical expenses, according to a study by the Canadian Cancer Society.

In a specially commissioned study to review the impact of a cancer diagnosis on caregivers and family members in British Columbia, Nova Scotia and Ontario, the *Canadian Cancer Statistics* report also says that, on average, caregivers dedicate 2.6 hours per day to patient support in addition to their other duties.

Compounding the problem, the Society says, palliative care services are inconsistent, with some patients and families receiving more support than others, depending on where they live.

"Right now we have a patchwork approach to providing care at the end of life," says Heather Chappell, Canadian Cancer Society director of cancer control policy. *"Some patients and families are not getting the support they need during a very difficult time. Uniform, high-quality support for a person dying of cancer should be available no matter where they live."*

The report goes on to indicate that 55 per cent of those with terminal cancer die in hospital, despite the fact that a large majority of individuals would prefer to die at home.

Poor end-of-life support is a result of four factors, the Society's report says. They include:

- insufficient use of palliative care services, largely because patients are referred to such services too late;
- insufficient knowledge of end-of-life care and its potential financial and psychological impacts;
- lack of basic information on how to minimize patients' pain and suffering; and
- a lack of programs to adequately provide for people to die at home.

More than 173,800 new cases of cancer will be diagnosed in 2010, the Canadian Cancer Society says. At least 75,500 people will die of the disease.

There is no indication of how much the extra financial burden placed on caregivers and families is ultimately covered by group benefit plans or private health care insurance such as critical illness insurance or long-term care insurance. ❧

Leading cause of cancer deaths

1. Lung cancer	20,600 lives
2. Colorectal cancer	9,100 lives
3. Breast cancer	5,400 lives
4. Prostate cancer	4,300 lives

(Source: *The Canadian Cancer Society*)

Quebec budget imposes new health care costs

Plan sponsors and employees in Quebec face significant health care tax increases.

As part of its provincial budget tabled on March 30, 2010, the province plans to introduce the following measures:

Increased taxes on insurance premiums

The compensatory tax on insurance premiums will increase from the current level of 0.35 per cent to 0.55 per cent. This is in addition to the existing 2.0 per cent tax applied to contracts with insurers on both insured and self-insured policies.

The additional tax will be in effect until February 1, 2014, and will result in increased insurance premiums for employers and the resulting income taxes paid by individuals on their taxable employee benefits.

QST to increase

The Quebec Sales Tax (QST) will increase to 8.5 per cent on January 1, 2011 and to 9.5 per cent on January 1, 2012.

The increases could result in cost hikes on some administration services only (ASO) plans.

Health care "contribution"

All individuals age 18 or older will be required to make a health care *"contribution"* of $25 at the end of the 2010 tax year and $100 and $200 respectively at the end of the 2011 and 2012 tax years.

The amount will be payable when individuals file their income taxes. Exemptions are available for individuals living alone and earning less than $14,320 per year and for couples with more than one child and who earn less than $29,165 annually.

Source deductions can also be made through employers.

This new tax will have a direct impact on most employees. For plan sponsors, additional administration may be required to implement source deductions.

Health deductible

The Quebec government also announced that it is considering introducing a $25 deductible on each medical visit to a maximum of one per cent of family income. For example, a family with a household income of $50,000 would face a potential $500 in health care expenses each year. Or, put another way, that family would be charged for their first 20 visits to a health care facility in a year.

However, the amount of the deductible could vary based on the location of the health care service to be provided.

The deductible is not expected to be introduced until 2012.

If implemented, the deductible could have a direct impact on plan sponsors with extended health care plans. Plan sponsors should expect to receive claims from employees attempting to cover the cost of the new deductible through their benefits program. Those with collective bargaining arrangements should review their collective agreements to confirm whether they would be responsible for meeting this additional cost. ❧

Ontario generic drug price reforms mean major changes

The Ontario government has released clarifications of its controversial plan to reduce generic drug prices. (See the April 2010 special edition of the *Coughlin Courier* for background information.)

While the provincial government remains committed to cutting generic drug prices by eliminating the payment of professional allowances to pharmacies by pharmaceutical firms, the government has published a timeline for the reductions that extends to 2012. It also has developed a schedule that gradually reduces the special allowances paid to pharmacies to April 2013.

To offset the financial impact the new regulations will have on pharmacies, the government has also said that it will now pay pharmacies an additional $1 dispensing fee on prescriptions filled through the Ontario Drug Benefit (ODB) plan in 2010-11. That amount will be reduced to 65 cents on ODB prescriptions filled in 2011-12 with a further reduction to 35 cents per prescription in 2012-2013.

The published generic price reductions are as follows:

Legislated generic price as a percentage of the equivalent brand name drug price

Date	ODB plan	Private plan
Current	50%	Unregulated
2010	25%	50%
April 1, 2011	25%	35%
April 1, 2012	25%	25%

Maximum professional allowance to be paid to pharmacies by manufacturers (Percentage of the generic drug price)

Date	ODB plan	Private plan
Pre-April 7, 2010	20%	Unregulated
Current	0%	Unregulated
2010	0%	50%
April 1, 2011	0%	35%
April 1, 2012	0%	25%
April 1, 2013	0%	0%

Classification of pharmacies by location

In its earlier announcement, the provincial government said that the maximum dispensing fees under the ODB plan would be increased from their current level of $7 per prescription to $8 in *urban* centres and up to $12 in *rural* areas. However, initial government communications did not define either term. Since then, the government has published a four-tier list defining pharmacies by both postal code and location.

Under this arrangement, pharmacies in rural areas where competing pharmacies may be several kilometres away, will be eligible to charge a higher ODB dispensing fee than those in urban areas where consumers may have many pharmacy choices available within a short distance.

The following outlines the new pharmacy classifications:

Pharmacy description	Maximum dispensing fee
Type 1	**$8.00**

Pharmacies other than Types 2, 3 or 4.

Type 2	**$9.00**

Has a postal code with the second digit of "0" and meets one of the following conditions:

- There is no other pharmacy within five kilometres.
- The nearest other pharmacy is no more than five kilometres away and is the only other pharmacy in a five kilometres radius.
- The nearest other pharmacy is at least five kilometres away but no more than 10 kilometres away.

Type 3	**$11.00**

Has a postal code with the second digit of "0" and meets the following condition:

- The nearest other pharmacy is at least 10 kilometres away but no more than 25 kilometres.

Type 4	**$12.00**

Has a postal code with the second digit of "0" and meets the following condition:

- The nearest other pharmacy is at least 25 kilometres away.

ODB fees changes planned for 2011-2014

Another key element to the change was the government's plan to publish ODB fee increases per pharmacy type for the years spanning 2011 to 2014. The scheduled fee increases are:

Date	Pharmacy type	Dispensing fee
April 1, 2011	Type 1	$8.20
	Type 2	$9.22
	Type 3	$11.28
	Type 4	$12.30
April 1, 2012	Type 1	$8.40
	Type 2	$9.45
	Type 3	$11.55
	Type 4	$12.61
April 1, 2013	Type 1	$8.62
	Type 2	$9.69
	Type 3	$11.84
	Type 4	$12.92
April 1, 2014	Type 1	$8.83
	Type 2	$9.93
	Type 3	$12.14
	Type 4	$13.25

Impact on Coughlin Preferred Provider Network (PPN)

Participating pharmacies in Coughlin's Preferred Provider Network commit to limiting their dispensing fees and mark-ups on generic drugs to the specifications of the Ontario Drug Benefit plan.

While the change from a single dispensing fee and mark-up arrangement to regional fee template with varying mark-ups will add a degree of complexity to the drug claims process, we expect the PPN program will be able to function with minimal disruption, once the initial transition to the new fee schedule is complete.

Impact on plan sponsors

Plan sponsors that participate in the Coughlin PPN should expect some confusion during the transition process, particularly from members living in designated rural areas where the ODB plan maximum will increase from the former level of $7 to the new higher levels.

On a positive note, the publishing of projected ODB fee increases to the year 2014 will allow plan sponsors to plan for cost increases over the next three to four years and to budget accordingly. ❧

Sweeping CPP reform unlikely

Federal Finance Minister Jim Flaherty took a cautious approach towards Canada Pension Plan (CPP) reform this June.

Meeting with finance ministers of the provinces and territories in Charlottetown on June 14, Mr. Flaherty ruled out adding a voluntary contributory element to the CPP, as proposed by the Liberal Party, or doubling CPP contributions and benefits, as originally proposed by the NDP and some labour groups.

"We reject a voluntary plan because that would very much disturb the work of the Canada Pension Plan, which operates on a different basis," the federal finance minister said, *"But the plan can administer a modest phased-in increase on the mandatory side."*

While conceding that the federal cabinet had discussed expanding the CPP, it was *"not a road we want to go down,"* Mr. Flaherty said. He also noted that mutual funds and other private investment vehicles are already available for Canadians to invest in privately on a voluntary, contributory basis.

Instead, it appears the federal government favours the gradual expansion of the yearly maximum pensionable earnings (YMPE) limit, which is set annually by the Department of Finance. (The 2010 YMPE is $47,200.) If adapted, the proposal would indirectly mandate middle and upper income workers to contribute to the CPP for a longer period each year, thereby funding the potential for higher CPP benefits for all members when they retire.

In addition, Mr. Flaherty signalled that the federal government supports other proposals allowing smaller companies to join large pension plans on a joint multi-employer basis, thereby giving self-employed individuals and those employed by small businesses a measure of pension security outside of the government-operated Canada Pension Plan and Old Age Security (OAS) program.

While the federal government concept met with cautious approval by the Canadian Labour Congress, which labelled the plan as politically *"very astute"*, it was soundly panned by the Canadian Federation of Independent Business, which sees CPP premium increases as an additional payroll tax that will result in *"major job losses."*

The federal proposal may also run into stiff opposition from some provinces. Both the provinces of Alberta and British Columbia have floated plans to introduce their own supplementary defined contribution pension plan that would operate in addition to the Canada Pension Plan.

Any proposal for renovating the Canada Pension Plan will require a broad national consensus consisting of two-thirds of the provinces representing two-thirds of the Canadian population. ❧

CPP returns top 14 per cent

The Canada Pension Plan (CPP) posted a return of 14.9 per cent on its investments in 2009, or $16 billion, according to the Canada Pension Plan Investment Board.

The return reflected the robust market recovery in the latter half of the year and raised the net asset value of the CPP to $127 billion.

The Investment Board also reports that it is averaging one major investment transaction per week to take advantage of today's relatively low equity and property cost environment. The Investment Board made 37 major investment acquisitions in 2009.

On a 10-year basis, the CPP has averaged an investment return of 5.5 per cent, well below the 6.2 per cent return required to maintain the solvency of the plan over the long term. The government pension plan reported an asset value decline of 18.6 per cent following the market crash of 2008.

"The past 10 years of investing have taken place during the worst calendar decade of performance for equity markets in the nearly 200 years of recorded stock market history," says Canada Pension Plan Investment Board Chief Executive Officer David Denison. *"We are confident that with the fund's current portfolio composition and reasonable levels of capital market returns, we will be able to generate returns required to sustain the CPP at its current contribution rate over the long term."*

The Investment Board projects that its investments will experience strong growth from now until 2021, after which, growth will slow as more investments are liquidated to pay for the expected burst of pension claims as baby boomers begin their retirement. However, it is confident that it will be able to achieve a rate of return that will sustain the CPP for at least 75 years.

"We have the benefit of being able to look beyond the short-term market cycles and to deal with volatility better than the majority of major participants," Mr. Denison says. ❧

Federal pension changes released

The federal government has introduced a number of reforms to update its pension legislation.

Following a series of consultations with over 200 business, labour, consumer and retiree groups, the government hopes to establish new standards that will add greater stability to federally regulated pension plans, particularly in times of market or economic volatility.

The proposed changes impact 1,380 different pension plans across Canada, representing approximately 12 per cent of the nation's pension fund assets. All involve federally regulated institutions such as the federal public service, the military, the Royal Canadian Mounted Police and Canada's banks.

Highlights of the proposed amendments include the following:

1. Using a three-year average to measure minimum solvency ratios

Averaging a plan's solvency over a three-year time frame would reduce the effects of short-term market fluctuations on plan assets, the federal Department of Finance says. In situations such as the 2008-09 market collapse, where average pension values declined by as much as 25 per cent within a few months, the requirement to make special payments to normalize fund values would be reduced in the short term. However, the required payments would be higher in later years as the market "shock" passed.

During years when market conditions and investment returns are favourable, solvency payment requirements would decline more slowly, further strengthening pension plan solvency over the long term.

Plans with solvency deficiencies would continue to have a five-year period to amortize their deficits.

2. Increasing solvency requirements for contribution holidays

The federal government plans to increase the minimum solvency ratio for contribution holidays to 1.05 from today's level of 1.0. In effect, plan sponsors will be restricted from taking contribution holidays until a plan's assets exceed its liabilities by a minimum of five per cent.

Since solvency will be measured on a three-year average basis, plan assets would be further "cushioned" against short-term market upswings that could tempt some plan sponsors to defer their plan contributions.

3. Changing investment restrictions

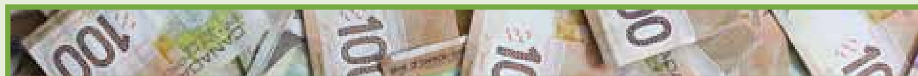
Under the current regulations, a pension plan may not hold more than five per cent of its portfolio in a *single* parcel of real estate or Canadian resource property. In addition, no more than 15 per cent of its *total* portfolio can consist of Canadian resource properties. Plus, the *combined* Canadian real estate and resource property total cannot exceed 25 per cent of a plan's total portfolio.

Since these restrictions were considered by many pension plan managers to be too cumbersome and unnecessary for today's environment, they will be eliminated. However, the requirement that pensions limit the number of voting shares they may own in a single entity to 30 per cent will remain.

More information on the government's pension reform proposals can be seen on the Department of Finance website at www.fin.gc.ca. ❧

How they did in 2009

The year 2009 was a good year for pension plans. Following are the rates of return reported by five of Canada's largest pension funds:



Hospitals of Ontario Pension Plan (HOOPP) - **15.2 per cent**

Canada Pension Plan - **14.9 per cent**

Ontario Teachers Pension Plan - **13.0 per cent**

Ontario Municipal Employees Retirement System (OMERS) - **10.6 per cent**

Caisse de dépôt et placement du Québec - **10.0 per cent**

Fast facts

- More than 70 per cent of multi-employer defined benefit pension plans took action in 2009 to improve their financial viability, an International Foundation of Employee Benefits Plans survey of 387 plan sponsors indicates. Among the most widely used approaches were: examining or changing actuarial cost methods and assumptions; reviewing their plans' investment policies; and increasing plan contributions with little or no increase in associated benefits.
- The government of Saskatchewan has announced that its provincial health care plan will reduce its chiropractic coverage to 12 treatments per year for individuals receiving Supplementary Health Care Plan, Family Health Benefits or Seniors Income Plan benefits. Coverage for all other chiropractic services has been eliminated.
- The government of Nova Scotia has announced plans to phase out cost-of-living increases to its public service superannuation plan. It will also borrow up to $500 million to return the pension plan's solvency ratio to a fully-funded status.
- Health Canada says it received 27,496 reports of adverse reactions to drugs in 2009, compared to 20,300 a year earlier. There was no apparent reason for the 35 per cent increase. Approximately 70 per cent of the adverse reactions involved medications while 23 per cent involved biotechnology products such as insulin.
- Total number of prescriptions filled in Ontario between the hours of midnight and 8:00 a.m. in 2009: 2,000.
- The Office of the Chief Actuary of Canada has asked for an external peer review of the Canada Pension Plan (CPP). A peer review panel will be selected by the United Kingdom Government Actuary's Department with a mandate to provide an independent analysis and assessment of the viability of the government pension plan. An independent third party reviews the CPP every three years.
- Five French public service unions went on strike this past May to protest President Nicolas Sarkozy's proposal to increase the legal retirement age from 60 to age 61 or 62. On average, French workers retire at age 61.5 and collect approximately 70 per cent of their former salary.
- The newly elected government of the United Kingdom has announced that it will eliminate rules requiring government workers to retire by age 65. The government says it will increase the minimum retirement age for government pension benefits to age 66.
- Australia has announced plans to introduce an 18-week parental leave program. Under the plan, a parent would receive $545 Australian (or $473 Canadian) for 18 weeks. With the introduction of the Australian scheme, the United States remains the only major industrialized economy without a parental leave plan.
- The government of Greece has announced plans to increase its minimum retirement age to 60. Part of the Greek government's new austerity plan to meet European Union and International Monetary Fund requirements, the new plan will also gradually increase the qualification age to receive full retirement benefits to age 65. The plan was met with widespread protests and strikes throughout the country. ❧

Canadian business taxes are competitive

When it comes to taxation, which country has lower taxes: Canada or the United States?

If you answered, the United States, you'd be wrong — at least when it comes to business taxation.

According to the 2008 tax competitiveness by country survey released by KPMG, Canadian corporate taxes are 36 per cent lower than those in the United States.

While personal income and sales taxes remain higher in Canada, corporate taxes on payroll, capital and income have been eliminated or reduced considerably in recent years. On average, Canadian federal and provincial corporate tax rates amount to a combined 25 per cent. This compares to the US federal business tax rate of 35 per cent. State taxes are extra and vary considerably.

In terms of business tax competitiveness, Canada ranked in third place in the KPMG survey, behind Mexico and the Netherlands. The KPMG review included taxes on income, capital, sales, property and labour as well as local taxation.

The top 10 rankings for tax competitiveness by country are as follows:

1. Mexico
2. Netherlands
3. **Canada**
4. Australia
5. United Kingdom
6. United States
7. Germany
8. Italy
9. Japan
10. France

(Source: *KMPG Competitiveness Alternatives 2010, Special Report: Focus on Tax)* ❧

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