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JULY 2014

AT A GLANCE ...

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Poorest groups pay more out-of-pocket for health care, StatsCan says

Canadians are spending an increasing percentage of their household income on health care, Statistics Canada reports.

In its report entitled *Trends in out-of-pocket health care expenditures in Canada, by household income, 1997-2009,* the government agency reports Canadians are spending more money in both absolute terms and as a percentage of income on out-of-pocket health care expenses.

According to its bi-annual survey of household spending patterns, Statistics Canada says that out-of-pocket health care expenses increased an average of 36 to 63 per cent from 1997 to 2009, depending on income quintile. (A quintile is any one of five equal groups into which a population can be divided.)

Hardest hit were the lowest 20 per cent of income earners. Out-of-pocket expenses for members of that group jumped from $631 per person annually in 1997 to $1,030 in 2009, a 63 per cent increase.

While those in the highest income quintile paid more in absolute terms, their out-of-pocket expenses grew at a strong, but still more modest, 48 per cent, from $2,007 per person annually in 1997 to $2,964 in 2009.

The results by income quintile were as follows:

Average household out-of-pocket expenditures on health care by household income quintile (2009 dollars) 1997-2009

Income quintile	1997	2001	2005	2009	Increase
Q1 (lowest income)	$631	$700	$794	$1,030	63%
Q2	$1,172	$1,317	$1,564	$1,644	40%
Q3	$1,448	$1,676	$1,867	$1,973	36%
Q4	$1,834	$1,901	$2,139	$2,269	36%
Q5 (highest income)	$2,007	$2,260	$2,737	$2,964	48%

From: *Trends in out-of-pocket health care expenditures in Canada, by household income, 1997-2009, Statistics Canada, April 2014.*

While the Statistics Canada report says that health care expenditures consume an average of 5.7 per cent of household income, the percentage of households reporting that health care expenses now account for *more* than five per cent of their income has increased across all income categories. Again, however, the highest increases were seen among lower income groups.

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In other words, since 1997, the country's lowest income earners faced the sharpest increases in out-of-pocket health care costs and are spending a greater percentage of their income on health care. This is seen below:

Percentage of households with out-of-pocket expenditures on health care exceeding five per cent of total household income by household income quintile

Income quintile	1997	2001	2005	2009	Increase
Q1 (lowest income)	26	30	34	37	40%
Q2	30	35	38	36	23%
Q3	23	26	30	31	33%
Q4	16	19	22	19	16%
Q5 (highest income)	10	10	13	14	42%

From: *Trends in out-of-pocket health care expenditures in Canada, by household income, 1997-2009, Statistics Canada, April 2014.*

These patterns changed markedly when it came to prescription drugs, according to the agency report. While the lowest income group continued to report the highest cost increases since 1997, those in the second lowest income quintile spent more on prescription drugs in absolute dollars than the other groups. In general, the two lowest income groups faced the highest drug cost increases and paid more proportionally for drugs than the other groups. Paradoxically, the highest income earners paid less for their medications in both absolute terms and proportionally.

Average household out-of-pocket expenditures on prescription drugs (2009 dollars) by household income quintile

Income quintile	1997	2001	2005	2009	Increase
Q1 (lowest income)	$180	$189	$223	$296	64%
Q2	$298	$315	$370	$388	30%
Q3	$287	$308	$348	$339	18%
Q4	$236	$254	$296	$316	34%
Q5 (highest income)	$222	$238	$262	$268	21%

From: *Trends in out-of-pocket health care expenditures in Canada, by household income, 1997-2009, Statistics Canada, April 2014.*

The same overall pattern held when it came to dental expenses: the lowest income groups faced the highest cost increases from 1997. However, the highest income group followed closely behind while middle income groups faced the lowest out-of-pocket cost increases.

Average household out-of-pocket expenditures on dental services (2009 dollars) by household income quintile

Income quintile	1997	2001	2005	2009	Increase
Q1 (lowest income)	$105	$120	$128	$167	60%
Q2	$226	$239	$277	$296	31%
Q3	$265	$302	$358	$241	29%
Q4	$331	$396	$404	$435	31%
Q5 (highest income)	$408	$452	$554	$646	58%

From: *Trends in out-of-pocket health care expenditures in Canada, by household income, 1997-2009, Statistics Canada, April 2014.*

The biggest disparity among the lower and higher income quintiles could be seen in insurance premiums paid by the various income groups. Again, the lowest income groups faced the steepest increases in health care insurance premiums in the 1997-2009 period.

Average household out-of-pocket expenditures on health insurance premiums (2009 dollars) by household income quintile

Income quintile	1997	2001	2005	2009	Increase
Q1 (lowest income)	$117	$163	$202	$222	89%
Q2	$261	$366	$460	$497	91%
Q3	$399	$573	$617	$722	81%
Q4	$526	$670	$753	$786	50%
Q5 (highest income)	$637	$825	$955	$965	52%

From: *Trends in out-of-pocket health care expenditures in Canada, by household income, 1997-2009, Statistics Canada, April 2014.*

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Conclusions

"The results of this study demonstrate that while out-of-pocket health care spending among households in all income quintiles rose between 1997 and 2009, the increase was greater in lower income households," the Statistics Canada report says.

For plan sponsors, the report could serve as a warning that cost increases associated with the provision of group health care and dental benefits will most likely occur among lower income workers. That could result in higher wage demands among those groups.

In addition, the disparity in relative out-of-pocket health care expenses could result in erratic or inefficient use of health care plans, the report suggests.

"Lack of insurance and the burden of out-of-pocket expenditures have been associated with inequitable use of dental care and prescription medications," the Statistics Canada report notes. *"Recent evidence suggests that almost 10 per cent of individuals who received a prescription in the previous year experienced cost-related non-adherence (did something to make a prescription last longer, did not fill a prescription or did not renew a prescription.) The recent trend may result in great inequities of these types in the future."* ❧

Coughlin launches *Coughlin e-Courier*

NEW!

Coughlin's web site will have a slightly new look, beginning on June 30.

On that date, the site will feature a sign-up button to allow visitors to the site to subscribe to the new *Coughlin e-Courier,* an electronic version of our popular *Coughlin Courier* newsletter.

Like the older *Coughlin Courier,* the *e-Courier* will feature articles on developments in the benefits and pensions industry, legislative updates, as well as highlights of Coughlin's products and services.

While the distribution of the *Coughlin Courier* will remain restricted to key personnel among plan sponsors, readership of *Coughlin e-Courier* will be targeted to the general public. As a result, the content of the *e-Courier* will be shorter and less technical in nature than its sister publication.

To conform to Canada's new anti-spam legislation, the *e-Courier* will feature an active sign-up mechanism where subscribers will be asked to provide their names and email addresses and consent to receive the publication. All editions of the newsletter will also feature an *unsubscribe* mechanism to allow readers to voluntarily decline to receive further editions of the publication.

(The existing *Coughlin Courier* is forwarded automatically to Coughlin clients. It also features an *unsubscribe* button. In the coming months, its readers may also be asked to actively enrol to receive the publication.)

To enrol to receive the new *Coughlin e-Courier,* go to the Coughlin website at **www.coughlin.ca** starting June 30. ❧

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e-courier

Quebec passes assisted suicide bill

Quebec has become the first jurisdiction in Canada to allow terminally ill patients to choose to die with the help of a physician.

In a 94-22 vote, Quebec's National Assembly endorsed the bill virtually unchanged from the earlier provisions tabled in April by the former Parti Quebecois government. The bill was supported by members of all four parties represented in the National Assembly.

Under the new law, a patient requesting end-of-life treatment would have to be an adult resident of Quebec, be capable of providing consent to the procedure, be in the advanced stages of a terminal illness and be experiencing constant and unbearable physical or psychological suffering. At least two physicians would also have to confirm that the patient meets the criteria. Input from the patient's family would also have to be collected. (See the January 2014 and March 2014 issues of the *Coughlin Courier* for background.)

No doctor will be obligated to perform euthanasia.

According to former Quebec Social Services Minister Véronique Hivon, the original sponsor of the bill, "medical aid in dying" will only be available to a small number of terminally ill people whose suffering cannot be relieved by traditional palliative care.

"There will be this emergency exit, there will be this exceptional option in circumstances of exceptional suffering," she explained. *"Dying with dignity means dying with the least amount of suffering."*

The passage of the bill has been opposed by right-to-life organizations and civil liberties groups, who have vowed to challenge the new law in the courts. As well, the Canadian Medical Association (CMA) and other medical professionals have suggested that the law will divert resources from improving the country's palliative care facilities.

According to the CMA, less than 30 per cent of Canadians who will die in 2014 will have access to palliative care. The group is urging the federal government to develop a national palliative care strategy.

The Quebec law may also present some challenges to the insurance industry. Today, no life insurance benefits are paid to those who commit suicide within two years of purchasing a policy. Paid premiums are refunded to the estate or plan beneficiaries. However, should a medically assisted suicide of a terminally ill person occur within a hospital, will the old rules of the life insurance industry still apply? If not, would the unsupervised suicide of a terminally ill person be subject to different claims adjudication rules?

Interpretations of the new Quebec law by insurers and the courts will be worth watching in the months ahead.

The legislation will go into effect in early 2016. ❧

Specialty drugs and poor management dominate drug costs

Speciality drugs account for an ever-increasing portion of drug costs, according to the Express Scripts Canada (ESC) *2013 Drug Trend Report.*

The drug research and pharmacy benefit management firm reports that while specialty drugs accounted for only 1.3 per cent of total claims in 2013, they represented more than 24 per cent of drug spending, up from 13 per cent in 2007.

"New specialty drug treatments are making a real difference in the lives of patients, but the high cost of some drugs creates difficult decisions for employers that have to decide which medications to cover," says ESC president Michael Biskey.

An example can be seen in the average drug claims for cancer patients, the ESC president notes: $10,690 per patient, compared to the Canadian average of $765 per person.

If these trends continue, plan sponsors with drug plans will likely have to either increase funding for their drug benefits or re-structure their plans to make them more cost effective, the ESC report suggests.

Up to one-third of drug benefits are wasted due to poor patient decisions, ESC notes. Failure to take medications as prescribed, using more expensive drugs instead of less expensive alternatives such as their generic equivalent, and utilizing more expensive dispensaries add to drug cost pressures, the organization says. ❧

COLA adds sparkle to pension debates

The 2008-09 recession saw many pension plans reduce or eliminate their built-in cost-of-living adjustments (COLA).

With the return of better times and buoyant equity markets, the retirees of two of the nation's largest pension plans affected by the earlier pension reductions are receiving mixed messages on whether their plans will restore the inflation protection they once enjoyed.

The Ontario Teachers' Pension Plan (OTPP) has announced that it will use part of its $5.1 billion surplus to partially restore inflation protection for teachers who retired after 2009.

Pensioners who retired after 2009 will receive a one-time increase of up to $50 per month in January 2015 to bring their pension up to the level it would have been at if full inflation protection had been provided each year since they retired.

They will also receive slightly higher inflation increases next year for the portion of their pensions earned after 2009. Cost-of-living increases for this portion of pension credits will equal 60 per cent of the annual increase in the Consumer Price Index (CPI), up from the current level of 50 per cent. Pension credits earned before 2010 remain fully inflation protected.

The OTPP has net assets of more than $140 billion. It serves 307,000 active and retired members.

The news was not so favourable for the 35,000 unionized retirees of General Motors of Canada.

A group representing retired GM workers is urging the federal and Ontario governments to force the auto maker to restore the cost-of-living adjustments they lost during the 2009 bail-out of the company.

The two governments contributed $10.8 billion to the failing company in 2008, $4 billion of which was used to stabilize the company's pension plan. The cost-of-living benefit was frozen as part of the bail-out package.

While the positive equity markets have boosted equity values and the company's pension plan assets, the plan's cost-of-living benefits remain frozen.

Unifor, the union resulting from the merger of the United Auto Workers Union and the Communications, Energy and Paperworkers Union, says that while it tried to restore the benefit during its bargaining with the company in 2012, it had to focus its attention on saving the company and its jobs.

The retirees are now taking their case to the governments responsible for the GM bail-out.

"Since it was the governments that mandated the elimination of our pension cost-of-living adjustment, it is our belief that the governments must mandate GM to reinstate that adjustment," the retiree representatives write in letters to Prime Minister Stephen Harper and Ontario Premier Kathleen Wynne. ❧

Federal pension plans may need re-design, auditor general says

Canada's public service pension plans may have to be re-designed to make them sustainable in the long term, Auditor General Michael Ferguson says.

In his spring 2014 report to parliament, Mr. Ferguson warned that the pension plans for federal public servants, the military and the Royal Canadian Mounted Police have total liabilities amounting to $152 billion, posing a threat to the viability of those plans.

According to his report, prolonged low interest rates, lower than expected investment returns and increased longevity of pensioners *"could have a significant impact on pension liabilities and the financial position of the government."*

Noting that the federal government *"has a statutory obligation to pay pensions and is fully responsible for any funding deficit,"* the auditor general warns that the plans may have to be *"appropriately designed to ensure that policy options are in place to protect future employees, beneficiaries and taxpayers as well as the employer."*

The report noted that retired public servants are now living approximately 27 years longer than when the three pension plans were originally designed in the 1970s. Further increases in life expectancy will increase the plans' liabilities by between $4.2 billion and $11.7 billion for every one to three year rise in average life spans.

The pensions' $152 billion obligation is the federal government's second largest liability.

The auditor general's warning has prompted some pension reform advocates, such as former Ontario Teachers' Pension Plan President Jim Leech, to urge the government to consider adopting target pension plans. Target pension plans blend elements of both defined benefit and defined contribution pension plans. Target plans pay a defined benefit, provided they have the financial solvency to do so. With a target plan, pension benefits and contributions can be increased or decreased, based on the plan's overall solvency.

The government of New Brunswick is already considering adopting the target pension concept for its public service pension plan. In addition, the federal Minister of State for Finance, Keven Sorenson, has called the plan an innovative third pension option that is neither defined benefit nor defined contribution in structure.

Many unions, including the Teamsters, the Canadian Union of Public Employees (CUPE) and Unifor oppose the concept, arguing that it would leave pensioners' incomes vulnerable to the whims and financial well-being of plan sponsors. They cite Nortel, the city of Detroit and General Motors as examples of plan sponsors that sharply cut their pensioners' benefits when they encountered financial difficulty. ❧

Pension primer

Defined benefit pension plans:

- Pay a defined pension income based on a member's earnings and years of service.
- The plan sponsor manages the plan and is responsible for plan shortfalls and surpluses.
- Used primarily in the public sector.

Defined contribution plans:

- Pay a pension income based on member contributions and investment returns of the plan.
- Both plan sponsors and plan members usually contribute to the plan. Plan members often can choose to invest their funds in a variety of investment vehicles.
- Used primarily in the private sector.

Target benefit pension plans:

- Plans guarantee a specific payout based on the investment returns of the pension plan.
- Contributions and payouts can be adjusted to reflect the solvency of the pension plan. Poor investment returns could result in higher contribution requirements and/or lower pension payouts and vice-versa.
- Adopted widely in Europe. Some jurisdictions, such as the province of New Brunswick, are studying the concept. ❧

New Brunswick unveils new mandatory drug plan

The province of New Brunswick has introduced legislation to require all of that province's residents to have access to a drug plan.

Similar to Quebec's mandatory drug law, the New Brunswick Drug Plan (NBDP), will provide drug coverage to the province's residents who don't have insurance through their employers. It will also force employers with drug plans to raise their drug benefits to match the government plan.

The plan, which will be administered by Medavie Blue Cross on behalf of the provincial government, will cover drugs listed on the New Brunswick Prescription Drug Program formulary. There will be no deductible, and coverage cannot be denied because of age, gender or pre-existing medical conditions.

Highlights of the new plan include the following:

- coverage must be provided for all drugs covered by the NBDP formulary;
- coverage must be available to all members of a family unit;
- the plan will have no annual or lifetime maximums or caps on coverage;
- co-pays for plan members must not exceed $30 per prescription or $2,000 per year for drugs listed in the provincial formulary.

The new plan will become effective on April 1, 2015.

Premiums will be based on income and range from $800 to $2,000 per person per year.

Enrolment will occur in two stages, with voluntary enrolment for residents without drug coverage or with coverage less than the NBDP standard occurring between May 1, 2014 and March 31, 2015.

Mandatory enrolment for all residents will begin on April 1, 2015. At that time, all private drug plans offered by employers will be required to match the coverage offered by the provincial program. Anyone with an employer plan will no longer be allowed to join the government plan. As well, those who do not have drug coverage through an employer will be required to join the provincial plan.

Also, effective June 12, 2014, plan sponsors are prohibited from amending or cancelling their existing drug coverage.

More information on the NBDP can be found at **www.gnb.ca/drugplan**. ❧

Fast facts

- The Canada Pension Plan Investment Board reports that it generated a 16.5 per cent return in the 2013-14 fiscal year. The surge in returns is a marked contrast from the years of muted earnings growth following the 2008 market crash. Total assets for the national pension plan amounted to $219 billion, up from $183 billion a year earlier.

- The Quebec government has announced that it will move the eligibility age for income splitting between couples receiving the Quebec Pension Plan (QPP) to age 65 from the current age of 60. The proposal will affect 85,000 households in the province.

- Summer may be here but the long summer vacation may be a thing of the past for most workers. According to a TD Bank survey, 43 per cent of working Canadians don't take their full allotment of vacations every year. Being too busy at work and unexpected work-related problems accounted for the bulk of the reasons for foregoing vacations.

- Prince Edward Island will require the members of its legislative assembly to increase their contributions to their pension plan from eight per cent of their pay to nine per cent. As well, indexation of pension benefits will no longer be guaranteed. The minimum age to receive a full pension will jump to age 57 from the current age of 55.

- Members of Nova Scotia's legislative assembly will now be required to serve a minimum of five years before being eligible to receive a pension instead of two years. Retired members receive 3.5 per cent of their salaries for every year of service, beginning at age 55. Under the new arrangements, members' pension benefits will also be integrated with their Canada Pension Plan benefits beginning at age 65. Salaries for the province's MLAs begin at $89,234.

- Alberta has introduced legislation to reduce early retirement incentives of that province's public service pension plan. As well, cost of living adjustments will be reduced to 60 per cent of the Alberta inflation rate.

- Ontario workers will now be able to take up to eight weeks of unpaid leave to care for family members with a severe medical condition. A doctor's note confirming the condition is required. In addition, residents of that province may also take up to 37 weeks off work to care for their critically ill children under the age of 18.

- One-year survival rates for kidney grafts have increased to 97 per cent today compared to 65 per cent in 1975, according to the *Canadian Organ Replacement Register, 2011.* Improved immunosuppressive drug therapies, resulting in fewer infections and organ rejections, are credited for the success in kidney transplant survival rates.

- Just $1,000 — or less. That's how much 36 per cent of American workers say they have saved for retirement, according to the Employee Benefit Research Institute's *Retirement Confidence Survey.* Of those reporting those savings, 68 per cent earned less than $35,000 per year.

- British pensioners will soon receive an estimate of their life expectancy when they begin to receive their government pension benefits. The estimate, which is based on an individual's age, gender, location, smoker status, education and other factors, is designed to help people make better decisions about their finances following retirement. Most people underestimate how long they are likely to live and deplete their savings soon after retirement, says British Pensions Minister Steve Webb.

- Amazon.com is offering its employees a unique benefit: money to quit their jobs. The on-line retailer will provide from $2,000 to $5,000 to employees to resign from the company, based on their seniority. *"The goal is to encourage folks to take a moment and think about what they really want,"* says Amazon CEO Jeff Bezos. *"An employee staying somewhere they don't want to be isn't healthy for the employee or the company."*

- The Swedish city of Gothenburg will introduce a six-hour work day for two of its departments. The city plans to study the impact the shorter working day will have on employee sick leave and absentee rates. It hopes the shorter work day will result in fewer employee absences.

- A survey of Staples Inc.'s American and Canadian employees indicates that more than one-quarter of that company's employees do not take a break other than lunch, despite being entitled to do so. One in five respondents cited guilt as the reason for avoiding breaks. To reduce the potential for employee burn-out, the company says it will do more to encourage its workers to take their earned breaks.

- The stigma that many parents face when they take maternity and paternity leaves was illustrated in April when New York Mets infielder Daniel Murphy was soundly criticised by baseball fans and the New York media for taking the first two days of the Major League Baseball season off to be with his wife and newborn child. One talk show host even asserted that Mr. Murphy's wife should have had a C-section before the season opener. Major League Baseball players have had the right to take paternity leave since 2011. ❧

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Editor: David Whitbread | **Graphic designer:** Victor Lima