COUGHLIN
employee benefits specialists

COURIER

OCTOBER 2013

AT A GLANCE ...

COUGHLIN
employee benefits specialists

Prepare now for coming benefits cost hikes, studies suggest

Two independent surveys indicate that, while group health, dental and disability costs plateaued from 2011 to 2013, plan sponsors should prepare for a sharp rise in group benefit costs in the coming years.

According to separate surveys conducted by Towers Watson and the Canadian Financial Executives Research Foundation (CFERF) with the support of Morneau Shepell, the combination of changing demographics and the expanded use of biologic and speciality drugs will likely result in a return to double-digit group benefits cost increases within a few years.

In its review of 193 organizations representing more than 875,000 active and retired employees in Canada, the Towers Watson study found that health care spending rose by just 2.1 per cent in 2012, down from 2.7 per cent a year earlier. Further more, drug spending actually declined by 0.2 per cent from 2011 to 2012 while dental costs increased by only 1.3 per cent.

The loss of patent protection of many common prescription medications resulting in an increased use of less expensive generic drugs and more robust use of drug plan management strategies by plan sponsors have helped to mitigate waste and improve drug plan efficiencies, the human resources consultant says.

However, plan sponsors should not expect today's stability to continue indefinitely, particularly as the population ages and the use of biologic drugs continues to expand.

According to the Towers Watson report, biologic drugs are used by less than five per cent of the population but already account for 15 to 25 per cent of total drug expenditure. That percentage is expected to jump to 30 per cent within the next three to five years, it says, adding significant cost pressures to drug plans.

As well, the on-line study of 1,800 organizations conducted in early 2013 by CFERF, entitled *Banking on productivity: Managing employee health costs,* suggests that demographic trends will have a significant impact on benefits and that only 15 per cent of organizations it surveyed have taken time to plan for the coming wave of cost hikes.

"Canadian financial executives need to be aware of these emerging demographic and health trends that will have a substantial impact on the bottom line of Canadian businesses," says Michael Conway, the chief executive officer and national president of the Financial Executives Institute of Canada, the parent organization of CFERF. *"In order to address the perfect storm of factors, chief financial officers will have a significant role to play in maintaining employee health benefits while holding the line on costs and, ultimately, improving productivity. Health benefits costs are rising due to various factors such as the aging of the workforce. This trend will only increase as new and more expensive drugs arrive on the market."*

The consolidating of employee health care and productivity under one strategy was also recommended by the Towers Watson report.

"*To combat expected health care cost increases, employers can broaden their focus and look at how workforce health and productivity strategies might help control the costs of drug, dental and other benefits,*" says Towers Watson Canada Health and Group Benefits Leader Wendy Poirier. "*While employers have added more prevention and support to their benefits foundation, more work is needed to understand the cost drivers and to implement specific actions to manage both current and future costs.*"

Potential cost saving vehicles include mandatory generic drug substitution, drug supply limitations, preferred provider networks, therapeutic substitution strategies and drug formularies, she says. ❧

Pension funding slips into "danger zone"

Pension deficits have fallen into "the danger zone" for the first time in more than 10 years, a July 2013 report by the Dominion Bond Rating Service (DBRS) says.

In a review of 461 defined benefit pension plans in Canada, the US, Japan and Europe, the bond rating agency says that aggregate funding levels of the pension funds have slipped to 78.3 per cent, below the 80 per cent level it considers to be the minimum funding threshold.

"An aggregate funded status of below 80 per cent marks the first time that pension funds have fallen into the danger zone in the past decade," the DBRS reports. *"A mere 41 per cent of funds remained in good shape, down from 45 per cent in 2011."*

The report of dangerously low pension funding comes at a time when markets appear to be steadily recovering from the 2008-09 market crash, which left many pension funds with sizable investment losses. The continuation of historically low interest rates has also tempered pension fund earnings.

Compounding the problem is a strong increase in pension payment obligations as a growing number of people approach retirement.

"In an extraordinary period characterized by declining interest rates, the increase in plan obligations and benefits paid more than offset the stellar performance from the asset side," the DBRS reports. *"As long as interest rates remain at current lows, pension deficits will continue to be high."*

Good news may be on the horizon for pension funds as long-term interest rates have risen throughout 2013. Already some funds have reported improved liquidity compared to 2012 and 2011. However, according to the Bank of Canada's September 2013 rate announcement, interest rates will likely remain stable well into 2014.

The bad news for pension fund managers is that the Canadian Institute of Actuaries (CIA) has announced that it is considering changing its mortality tables to reflect longer life expectancies. For example, a 60-year-old man is now projected to live another 27.3 years, compared to the current estimate of 24.4 years. A woman the same age is projected to live another 29.4 years compared to today's calculation of 26.7 years.

Since the CIA's mortality tables are used by Canadian pension plans to determine pension payouts and contribution levels, the change could result in an increase in pension accounting liabilities of five to 10 per cent as pension funds may now have to be paid out to retirees or their beneficiaries for longer periods than originally expected.

"We are edging closer to a crisis," says Jim Leech, chief executive officer of the Ontario Teachers' Pension Plan, one of the country's largest pensions. *"Pension plans and sponsors need to come to grips with the volatility in the marketplace and the fact that people are living longer, and therefore have to save more."* ❧

Defined benefit pension plans with largest funding deficits*

	Plan sponsor	Pension deficit (in US funds)
1.	Ontario Power Generation	$3.3 billion
2.	Air Canada	$3.2 billion
3.	Hydro-Quebec	$2.8 billion
4.	Bombardier Inc.	$2.6 billion
5.	Imperial Oil Ltd.	$2.2 billion
6.	BCE	$1.8 billion
7.	Resolute Forest Products	$1.6 billion
8.	Hydro One Inc.	$1.5 billion
9.	Telus Corporation	$1.4 billion
10.	Suncor Energy	$1.3 billion

*Source: Dominion Bond Rating Service as published in the *Financial Post,* July 4, 2013

OAS pension can now be deferred

Canadians can now choose to defer receiving their Old Age Security (OAS) benefits for up to five years.

Effective July 1, 2013, eligible individuals can choose to delay receiving the benefit until age 70. For every month of deferral, an individual's potential OAS pension will increase by 0.6 per cent, or 7.2 per cent annually. For those who wait to age 70, the OAS benefit will increase by 36 per cent over the benefit available at age 65.

Currently, the benefit pays $546.07 per month, or $6,552.84 annually beginning at age 65. Deferral of the pension to age 70 would increase the benefit to $709.89 per month, or $8,518.69 per year.

Those who have received the OAS pension for less than six months may elect to cancel their pension and defer receipt of it until a later date, to a maximum age 70. However, they will have to repay all benefits they received in that time.

According to Service Canada, individuals should apply to receive the OAS pension no earlier than 11 months before the date they wish to begin to collect the pension. ❧

Nurses call for pharmacare plan

The Canadian Federation of Nurses Unions (CFNU) has urged Canada's premiers and the federal government to live up to their earlier promises to introduce a national universal drug care program.

"Each year, we lose billions by not moving forward with the long-promised program" says CFNU President Linda Silas. *"More importantly, millions of Canadians go without adequate access to medically required medications."*

A nation-wide pharmacare program has been on government agendas for more than a decade with no tangible results. In 2004, the premiers committed to work with the federal government to establish a drug care program for the country. In 2002, a special commission led by Senator Michael Kirby recommended the establishment of universal drug care, home care and other reforms. Those recommendations were quickly followed by similar recommendations in a royal commission on health care chaired by former Saskatchewan Premier Roy Romanow (see the November 2002 and December 2002 editions of the *Coughlin Courier* for background.)

Canada is the only member of the Organization for Economic Co-operation and Development (OECD) that has a public health care program but no pharmacare plan. ❧

Majority of retirees are in debt, CIBC poll says

In traditional thinking, the first step to retirement was to pay off all your debts and mortgage. Then, with the combination of retirement savings, pensions and government benefits, one could retire with a degree of comfort.

Not anymore.

According to a CIBC poll conducted by Harris/Decima, 59 per cent of all retired Canadians say they are carrying debt. More alarming, 19 per cent of retirees say their debt load has increased over the past 12 months. Another 36 per cent say their debt has remained unchanged over the past year.

While today's historically low interest rates offer an opportunity to reduce debt loads more quickly, they also offer the temptation to assume more debt — which can be risky when living on a fixed income.

"With today's low interest rates, there is an opportunity for retired Canadians to review their monthly cash flow and make progress in paying down their debt," says CIBC Executive Vice-President of Retail Distribution and Channel Strategy Christina Kramer. *"Cash flow is a major component of retirement planning. Even a small reduction to your debt load can make a big difference in your monthly cash flow."*

With so many seniors in debt, the potential rise of interest rates could have a significant impact on the retired population, the CIBC executive warns. ❧

Time for a seniors' health care strategy, CMA says

Canada needs a national health care strategy for seniors, the Canadian Medical Association (CMA) says.

In its *2013 National Report Card* on health issues, the CMA calls the current situation *"unsustainable"* as aging baby boomers begin to crowd medical facilities and the demand for geriatric medical services rises.

"Most Canadians don't realize that, in many places in the country, it's very difficult to get appropriate senior health care outside of hospitals," says CMA President Dr. Anna Reid.

While the majority of Canadians surveyed by the CMA agree that strategies are needed to address the long-term care and home care needs of seniors, few resources have been directed to health care for seniors to date. For example, it costs $842 per day to provide care in an acute care hospital while long-term care facilities and nursing homes cost an average of $126 per day. However, many seniors remain in acute care hospitals for weeks or months at a time awaiting assignment to long-term care facilities.

The urgency of the situation was highlighted in an August 19, 2013 *Global News* article indicating that, in Ontario, only 14 people are currently in training to become geriatricians. According to the Canadian Resident Matching Service, which provides an electronic application service and a computer match for entry into postgraduate medical training, only 11 out of 421 third-year internal medicine residents chose geriatrics as their first choice in 2012.

With the number of seniors expected to grow to 6.4 million, or one in five Canadians, by 2018, the implications of the lack of trained medical professionals in geriatrics *"could be grave,"* the Global News article states.

Geriatrics is often overlooked by medical students in favour of more high profile disciplines such as surgery, psychiatry, family medicine and pediatrics, the article states. Today, there are 0.65 geriatricians per 10,000 of population. There are 10 times that many pediatricians, despite the fact that the proportion of children in the population has declined steadily since the early 1970s.

The impact of the "grey wave" is already being felt in the workplace, the CMA asserts. According to the 2012 *National Study on Balancing Work and Caregiving in Canada,* conducted by Carleton University and Western University, one-quarter of Canadians now spend time each week with eldercare. On average, they direct 6.9 hours per week caring for elderly relatives. The result is increased absenteeism and reduced productivity. That number will only increase as the proportion of seniors in the population rises.

"It's a matter of looking at how we spend our money," Dr. Reid says. *"If we don't want to bankrupt the health care system, we better start using our money in more efficient ways."*

For plan sponsors, health care for seniors is hardly an academic issue. With more workers opting to stay on the job beyond age 65, the impact of the lack geriatric medicine and services will likely be reflected in benefit plan experience to some degree in the coming years. As well, the numbers of leaves of absence requested by employees to care for the elderly will also likely increase. ❧

We're getting older —

Age 60 is the new 50. Almost.

While many publications, including the *Coughlin Courier,* have devoted much space to the aging of the Canadian population, in real terms, we are actually getting younger, according to a demographic study comparing longevity from 1950 to 2010.

According to a C.D. Howe Institute report entitled *"The Main Challenge of Our Times: A Population Growing Younger"*, increases in lifespan from 1950 to the present day have actually resulted in the population growing younger in relative terms.

According to study authors Marcel Boyer and Sébastien Boyer, a 35-year-old in 1950 could expect to live another 38.6 years. However, in 2010, a person that age should live another 46.8 years, or 8.2 years longer. Or, taken from another perspective, the 35-year-old living in the year 2010 has the same life expectancy as somebody 26.8 years of age in 1950 (35-8.2).

That difference is not just reflected among the young or middle aged. The C.D. Howe study noted that, in relative terms, the "real" age of today's 65-year-old is 59.5 years compared to his/her counter-part in 1950. A 75-year-old is really age 70.9 in terms of the life expectancy of the mid-20th century.

The difference in longevity, lifestyle and career expectations of 2010 should be adapted to public policy and social programs, the authors argue.

"Canadians are experiencing increases in longevity and are willing to work longer than previous cohorts," Marcel Boyer says. *"Public policy should aim to provide Canadians with the instruments to better manage retirement decisions."*

One example of changing expectations resulting from increased life expectancy is the significant increase in those

– and younger

age 50-plus reporting a willingness to have an "encore career" following their retirement.

While people following a solitary career path for 35 to 45 years gradually lose interest in their careers in their early 60s and retire at age 65, a double career path, where one begins an entirely new career in their 60s, opens the potential for longer and possibly more meaningful working lives, the study suggests.

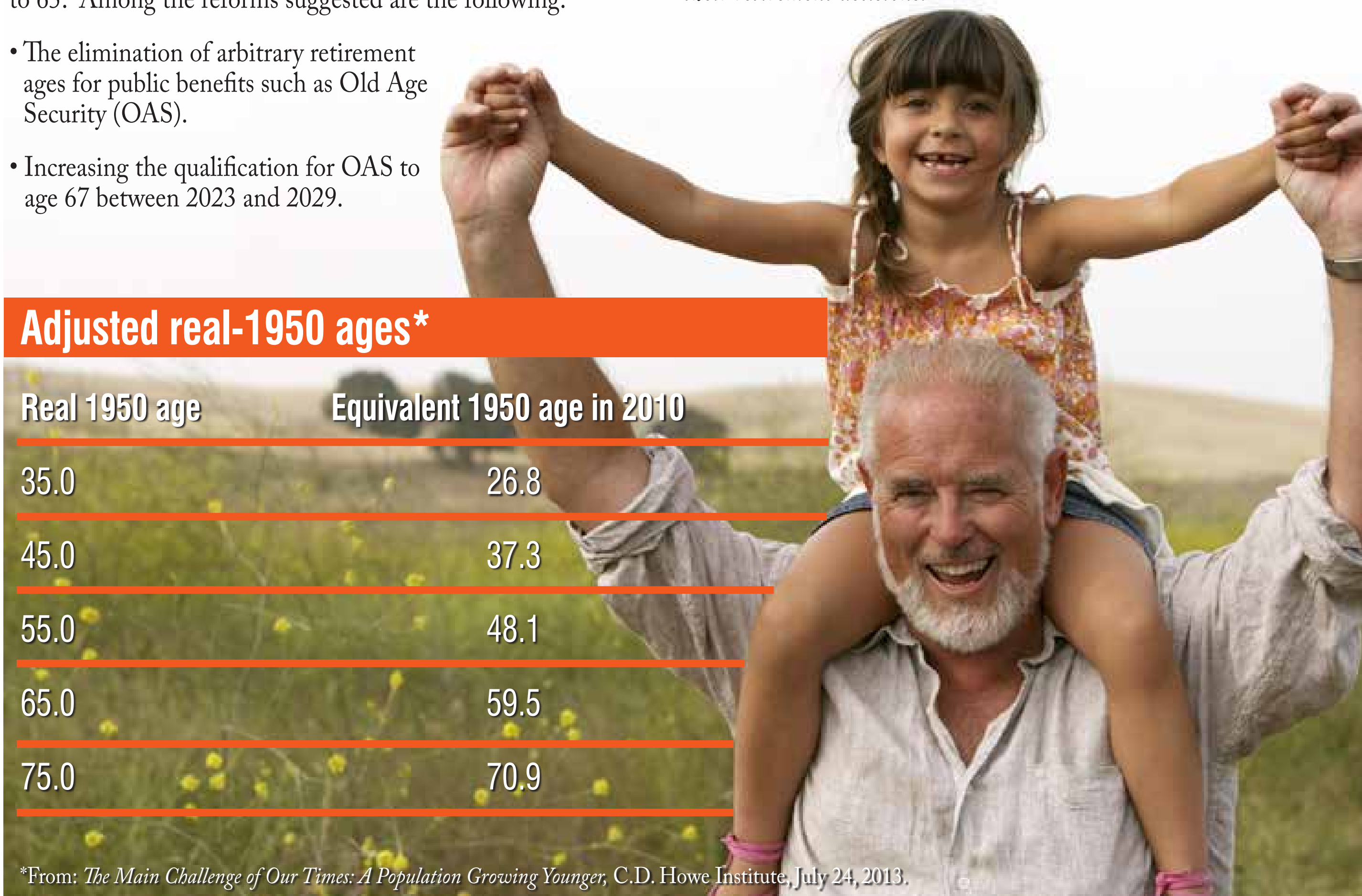
"A significant percentage of 50-plus workers say they would like to embrace an 'encore career.' In a double-career path, people would have the opportunity to complete one career, start cashing their pension from it, train for a second career and continue working," the study notes.

"New and more flexible labour market arrangements will be necessary. If continued labour force participation after age 60 to 65 is deemed desirable for the individual involved and society," Marcel Boyer says.

The C.D. Howe study concludes that a number of new and more flexible working arrangements will be necessary to ensure continued labour force participation after ages 60 to 65. Among the reforms suggested are the following:

- The elimination of arbitrary retirement ages for public benefits such as Old Age Security (OAS).
- Increasing the qualification for OAS to age 67 between 2023 and 2029.
- Changing tax and pension regulations to encourage phased-in retirement. Suggested steps include allowing workers to work and receive pension benefits while contributing to a pension plan.
- Reducing clawbacks on earned income for Guaranteed Income Supplement recipients.
- Adjusting Employment Insurance rules to better serve those who have been laid off late in their careers.
- Encourage lifelong education and training to encourage people to embrace a second career following their retirement.
- Changing severance pay rules to encourage older workers to retrain for a new career.

"Our population is not getting older in the traditional sense," the C.D. Howe Institute report says. *"Many workers approaching retirement age are able and willing to remain in the workforce longer. Significant portions of older Canadians are already deciding to postpone their retirement. Public policy should provide Canadians with the proper instruments to better manage their retirement decisions."* ❧



Adjusted real-1950 ages*

Real 1950 age	Equivalent 1950 age in 2010
35.0	26.8
45.0	37.3
55.0	48.1
65.0	59.5
75.0	70.9

*From: *The Main Challenge of Our Times: A Population Growing Younger,* C.D. Howe Institute, July 24, 2013.

Ontario introduces three new leaves of absence

The Ontario government has introduced legislation to add three new unpaid leaves of absences to that province's Employment Standards Act.

The new leaves include the following:

1. **Family caregiver leave**. An employee will be allowed to take up to eight weeks of unpaid leave to care for the following relations who have a serious medical condition: their spouse; parent, step-parent or foster parent of the employee or his/her spouse; a child, step-child or foster child of the employee or his/her spouse; the grandchild or step-grandchild of the employee or his/her spouse; the grandparent or step-grandparent of the employee or spouse; the spouse of a child of the employee; the employee's brother or sister; a relative who is dependent on the employee for care or assistance; and, any individual prescribed as a family member.
2. **Critically ill child care leave**. This program would allow the employee of a critically ill child under the age of 18 to take up to 37 weeks to care for a child whose life is at risk due to illness or injury.
3. **Crime-related death or disappearance leave.** This leave would allow parents to take up to 104 weeks of unpaid leave if their child under age 18 died as a result of a crime. It would also provide up to 52 weeks if a child, step-child, or foster child under age 18 has disappeared as a result of a probable crime. This leave is similar to that introduced earlier in 2013 by the federal government (see the April 2013 edition of the *Coughlin Courier* for background.)

All of the above leaves have minimum requirements for length of employment, medical conditions, and confirming documentation. ❧

Fast facts

- Drug plan waste costs plan sponsors $5.1 billion per year, according to the *2012 Express Scripts Canada Drug Trend Report*. The use of higher cost medications over generic drugs adds $3.9 billion to drug bills, the report notes. An additional $1.2 billion is lost through the use of more costly distribution channels, such as pharmacies that charge higher dispensing fees or the limiting of routine drug prescriptions to a 30-day supply.
- Effective July 1, 2013, the provincial sales tax in Manitoba increased from seven to eight per cent. The additional tax will be applied to all group life and dependant insurance, accidental death and dismemberment and long-term disability benefits of members residing in that province.
- The province of Ontario plans to make it easier for people experiencing financial hardship to access their locked-in retirement funds. Beginning January 1, 2014, individuals will be able to apply directly to their financial institution to access their retirement savings rather than the Superintendent of Financial Services.
- Alberta's proposed pooled registered pension plan (PRPP) has received Royal Assent. The PRPP is designed to offer the self-employed as well as employees of companies that do not have pension plans or group registered retirement savings plans (RRSPs) their own personal defined contribution retirement program. The plans are expected to be available beginning in 2015.
- The province of New Brunswick reports that the value of its public pension plan increased by over $700 million this year to $10.1 billion. Despite the gain, the province still had to make $140 million in special payments to the plan. The pension plan has a deficit of almost $1 billion and has a solvency ratio of just over 50 per cent.
- The trustees of the Ontario Municipal Employees' Retirement System (OMERS) rejected five different proposals to reduce that pension plan's retirement benefits and/or extend its eligibility period. (See the June 2013 edition of the *Coughlin Courier* for background.) The OMERS plan faces a deficit of more than $10 billion. The plan represents 429,000 active and retired members.
- Chrysler Canada says it will freeze contributions to its defined benefit pension plan effective December 31, 2014. Beginning in January 2015, the auto manufacturer will contribute to its employees' pensions through a defined contribution plan.
- Only five per cent of the elderly in Canada live below the official poverty line, according to the Organization of Economic Co-operation and Development's (OECD) *Pensions at a glance* report. Canada has the fourth lowest poverty rate among the elderly in the world, the organization says.
- The government of the United States has delayed the implementation of the Affordable Care Act until 2015. The controversial law requires companies of 50 or more people to provide employees with health care coverage. The US Treasury Department says it needs more time to address the Act's reporting requirements.
- The US Supreme Court has ruled that a 1996 law denying benefits to married same-sex couples is unconstitutional. The Court's decision allows married

continued on page 8 ▸

Need back issues of the Coughlin Courier?

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

Follow us on Facebook & Twitter

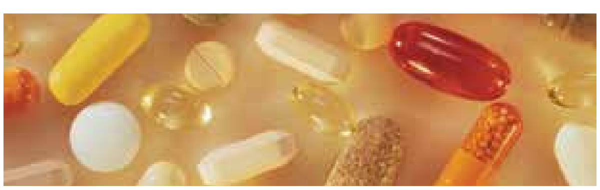
/coughlincanada

@coughlincanada

Fast facts *...continued*

same-sex couples to receive health, retirement and tax benefits. The District of Columbia and 12 states permit same-sex marriages.

- In an effort to speed up legislation to address his state's $100 billion public pension deficit, Illinois Governor Patrick Quinn has suspended the pay of that state's representatives and senators. The state's lawmakers have consistently failed to agree on reforms to reduce the deficit. *"Pension reform is the most critical job for all of us in public office,"* the governor says. *"I cannot in good conscience approve legislation that provides paycheques to legislators who are not doing their job for the taxpayers."*
- While life insurance for employees and their family members is a basic feature of group benefit plans, insurance on pets is becoming an increasingly popular benefit in the United States. According to Veterinary Pet Insurance, the largest pet insurance provider in that country, one-third of Fortune 500 companies now offer pet insurance as part of their group benefits programs. Premiums average from $25 to $35 per month with deductibles ranging from $100 to $1,000.
- The bankruptcy of the city of Detroit not only illustrated the impact of poor urban planning and fiscal management, it also underscored the importance of adequate benefits and pension plan funding. Of the city's total debt of $18 billion, unfunded health care liabilities for retired city workers totalled $5.7 billion while pension liabilities amounted to $3.5 billion. In other words, retiree benefits and pensions totalled $9.2 billion, or just over half, of the city's total debt.
- Within two weeks of a decision by the American Medical Association to declare obesity a disease, a Missouri man has filed a lawsuit against his former employer alleging that he was fired for being severely obese. The man contends that, as a disease, obesity is a physical impairment covered by the Americans with Disabilities Act, which guarantees the rights of the disabled. The suit will clarify whether as a disease, obesity also qualifies as a disability.
- Health experts in Australia have urged that country to develop a national strategy to combat diabetes. According to Diabetes Australia, the disease will grow to become the largest financial drain on that country's health care system over the next five years. Diabetes costs Australia more than $14 billion per year. That number will grow to $30 billion per year by 2025.
- Nippon Life, Japan's largest life insurance company, says it will require all male employees to take one week of child care leave when their wives/partners give birth. While many Japanese companies offer child care leave, most male employees do not use the benefit. Nippon Life is the first Japanese company to mandate all eligible employees to take the leave.
- Delaying retirement could lower your risk of developing Alzheimer's disease or dementia, a French study suggests. According to INSERM, France's health research agency, those who retire at age 60 have a 15 per cent higher risk of developing dementia compared to those who delay retirement until age 65. The social connections, mental challenges and physical activity associated with working may account for the delay in mental decline, the agency says.



PPN update

- **Wellington Drug Store**, of 1221 Wellington Street West in Ottawa, has joined the Coughlin & Associates Ltd. Preferred Provider Network. Its phone number is: 613-680-6789.