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New federal budget heralds changes to health care and pension plans

Health care and changes to contribution limits on registered retirement savings plans (RRSPs) dominated the latest federal budget, introduced by Finance Minister John Manley February 18.

In his address to parliament, Mr. Manley committed the federal government to increasing its contributions to the Canadian health care system by more than $34 billion over the next five years, $27.1 billion of which will be new money. At the heart of the federal initiative is the earmarking of $3.5 billion for the development of a new health reform fund to provide money for a catastrophic drug care program and to re-organize medical practices into clinics capable of providing 24-hour triage, nursing, and other services while being linked to common medical databases. It also proposed the development of a new six-week compassionate care leave plan under the Employment Insurance (EI) program.

An additional $1.3 billion was also directed to aboriginal health while $1.4 billion was marked to improve drug regulatory processes, health research and fund diagnostic equipment upgrades and other programs. Direct transfers to the provinces and territories accounted for the bulk of the extra funding.

Details of the catastrophic drug care proposal are still to be provided. However, the Kirby report on health care reform, tabled in October 2002, suggested that government programs should cover individual prescription drug costs once they exceed $5,000. If implemented, the program may be based in part on the Kirby plan.

A key reform in the Manley budget is the introduction of a national compassionate leave program to allow employees to claim up to six weeks of EI benefits while they care for members of their immediate families who are gravely ill. The program will go into effect on January 4, 2004. It is expected to relieve costs and patient load pressures on hospitals while allowing patients to face major or final illnesses in the familiar environment of their homes under the care of close family members.

A potentially difficult and controversial aspect of the federal proposals will be the re-organization of doctors' offices to allow for the establishment of 24-hour primary care clinics linking private medical offices and diagnostic specialists and their patient databases. Recent federal proposals called for primary care facilities offering medical, diagnostic and nursing services to be available to 50 per cent of the population on a 24-hour a day basis by 2011. The program is expected to meet with resistance from doctors who may be reluctant to surrender control of some aspects of their medical practices in favour of being "rostered" with other medical services or specialities.

While the new budget channels considerably more money to health care services, it is still a long way from the major overhaul of medical services recommended by either Senator Michael Kirby in his report on health care or by the Romanow commission on health care (see the November and December 2002 editions of the *Coughlin Courier.*) Both reports proposed sweeping changes to the structure, services and availability of health care as well as the infusion of more capital to the national program. However, proposals such as the compassionate leave and catastrophic drug care plans and the establishment of a common health care database borrow liberally from the recommendations of both reports.

For plan sponsors, the new health care proposals are unlikely to have a significant impact on extended health care costs in the short to medium term. Over the long term, they may mean a reduction in drug care costs as government programs pick up the costs of catastrophic drug and home care programs. However, with the cost of prescription drugs and other health care services continuing to increase at double-digit rates, savings to plan sponsors will likely be muted at best. The implementation of the EI-based compassionate leave plan will likely result in higher numbers of employees using EI benefits as they care for elderly or sick relatives. This may have cost or productivity implications over the long term as plan sponsors attempt to "cover" for absent employees on compassionate leave.

continued on page 3

Joint Forum unveils new capital accumulation plan disclosure rules

After four years of study and consultation, the Joint Forum of Financial Market Regulators has released guidelines outlining investment disclosure rules for capital accumulation plans (CAPs).

The newly released report *Revised Principles for Investment Disclosure in Capital Accumulation Plans* is designed to provide a harmonized regulatory and disclosure framework for all CAPs including defined contribution pension plans, group registered retirement savings plans, deferred profit sharing plans and employee profit sharing plans. Approximately three million Canadians have more than $60 billion invested over 40,000 different CAPs.

The new guidelines will provide similar levels of protection to all CAP members, regardless of their jurisdiction or their choice of investment fund. The Canadian Council of Insurance Regulators, Canadian Securities Administrators and the Canadian Association of Pension Supervisory Authorities established the Joint Forum in 1999. Its membership includes pension, securities and insurance regulators throughout Canada.

The new guidelines have three overriding principles that in turn, form the base in which employers and plan administrators may establish or maintain capital accumulation plans and provide adequate disclosure to CAP members.

Those three principles are:

- that management of CAPs be statute-based;
- plan administrators or employers may select third parties to act on their behalf, provided the roles and responsibilities of each party are clearly documented in a written agreement; and
- all information regarding CAPs, including contracts and disclosure documentation, *"be in plain and simple language, focus on quality of disclosure, not quantity of information, be understandable to the average member, plan administrator or employer..."* It adds that *"information may be disseminated in various formats, including electronically, provided appropriate safeguards are in place."*

On a more detailed level, the *Revised Principles* state that plan administrators or employers are responsible for the following:

- the selection of investment options for members in plans offering a range of investment risks and profiles;
- the selection of the investment manager(s) for each investment option;
- the monitoring of the performance of the investment managers against established standards and benchmarks (as part of this process, plan administrators or employers may also take "appropriate action" to address unsatisfactory performance by the fund managers);
- allowing members *"reasonable opportunity"* to switch between investment options;
- establishing policies or default programs to deal with the investments of members who fail to make investment choices; and
- ensuring records are complete, accurate and able to be corrected promptly when errors are identified.

Under these new rules, plan administrators and employers are responsible for providing "initial disclosure" of the terms, conditions, objectives and performance of the capital accumulation plan to all members or potential members. According to the Joint Forum, this includes the following:

- explaining the nature of the CAP and *"the rights, responsibilities and risks of the plan, administrator, employer and members under the CAP";*
- outlining the investment options that may be available, including directions on how to make an investment choice;
- outlining transfer options and procedures and their associated fees;
- disclosing all member fees and expenses, including management fees, commissions, penalties, charges, custodial or audit fees;
- providing reports of fund performance against established benchmarks; and
- outlining how members may access information on their CAP.

In addition, plan administrators and employers are expected to provide *"continuous disclosure"* including annual statements on member contributions, share or unit value information, interest or investment earnings, transaction details and related fees.

Impact on plan sponsors

Plan sponsors with defined contribution pension plans, group RRSPs, employee profit sharing plans or deferred profit sharing plans should expect to channel substantially more resources to comply with these new regulations. As well, extra resources may be required to introduce programs to educate their employees or members on these programs, select fund managers, set and monitor fund performance benchmarks and meet other related obligations.

Your Coughlin & Associates Ltd. consultant can help your organization establish programs to comply with the new principles.

Detailed information is also available at the Canadian Council of Insurance Regulators website at: http://www.ccir-ccrra.org. under *Publications.*

... Budget continued from page 1

Another key proposal in the Manley budget is the increase of the maximum RRSP contribution limits from today's level of 18 per cent of earnings to a maximum of $13,500 to $18,000 by 2005. The limit has been frozen at the $13,500 level since 1996. Under the proposal, RRSP limits will increase to $15,500 in 2003, $16,500 in 2004 and $18,000 in 2005. The limits will be indexed to the inflation rate beginning in 2006.

While the increases will allow those with more disposable income to increase their retirement savings, the increase in contribution limits could increase pension costs for plan sponsors. Since pension adjustment calculations are linked under the Income Tax Act, an increase in the RRSP contribution limit will automatically result in the increasing of the maximum accrual limits for registered pension plans and deferred profit sharing plans. Registered pension plan limits are projected to increase to $15,500 in 2003, $16,500 in 2004 and $18,000 in 2005. Defined benefit plan maximums will increase from today's level of $1,722 per year of service to $2,000 per year of service in 2005.

Other proposed changes include:

- reducing Employment Insurance premiums for employees from $2.10 per $100 of insurable earnings to $1.98; and
- eliminating the capital tax on businesses over the next five years.

With extended health care coverage, pension contribution limits and Employment Insurance benefits impacted by the Manley budget, it appears that 2003 could be a year of change for employee benefits plan design and governance.

More information on these reforms will be provided as they are implemented.

Quebec's changes to Labour Standards Act extend leave benefits

The Quebec National Assembly has passed Bill 143, amending its Labour Standards Act.

The bill, which goes into effect on May 1, 2003, increases leave of absence, paternity, hours of rest and other benefits. It also introduces legislative protection against psychological harassment in the workplace.

Under the new law, employers will be allowed to extend maternity leave benefits for up to 18 consecutive weeks. As well, new fathers will be entitled to unpaid leaves of absence for up to five consecutive weeks following the birth of a child.

The law also extends leave of absence benefits to employees facing long-term illness, either personally or within their families. According to the new legislation, employee sickness or accident leaves will be extended from the current level of 17 weeks to 26 weeks per 12-month period, provided the employee has worked for the employer for three continuous and uninterrupted months. (This provision does not apply to employment-related injuries.) It also allows an employee to take up to 12 weeks of unpaid leave per year to attend a family member who is suffering from a serious illness or accident. *A family member* is defined as a child, spouse, spouse's child, sibling, parent or grandparent. On a similar level, it also increases the time an employee may be absent due to family obligations from five days to 10 days per year. *Family obligation* includes the care, health or education of an employee's child, his/her spouse's child or the care of another close family member.

Plan sponsors are required to continue group insurance and pension benefits to employees taking qualified leaves of absence. They must also reinstate the employees to their former positions and benefit levels upon their return to work.

Under the terms of Bill 142, minimum weekly rest periods will increase from 24 hours to 32 hours. Employees will also have the right to refuse work that continues over four hours beyond their regular daily working hours or more than 14 working hours per 24-hour period, whichever is shorter.

The law also guarantees employees' right to work in environments free from psychological harassment, which is defined as: *"any vexatious behaviour in the form of repeated and hostile or unwanted conduct, verbal comments, actions or gestures that affects an employee's dignity or psychological or physical integrity and that results in an harmful work environment for the employee."*

Coughlin PPN grows to 100 pharmacies

Coughlin & Associates Ltd.'s Preferred Provider Network (PPN) recently grew to 100 participating pharmacies and expanded geographically to Kingston, Prescott, Belleville and Trenton. Much of the growth is attributable to the chain of Drug Store Pharmacies, a participant since our network's inception. The following is a list of these recent additions to our PPN:

Belleville
Drug Store Pharmacy, Your Independent Grocer, 400 Dundas St. E., Tel: 968-4383

Kingston
Drug Store Pharmacy, Loblaws, 1048 Midland Ave., Tel: 389-4119

Drug Store Pharmacy, Loblaws, 1100 Princess St., Tel: 530-3414

Nepean
Drug Store Pharmacy, Loblaws, 1980 Baseline Rd., Tel: 723-3100

Drug Store Pharmacy, Your Independent Grocer, 200 Grant Cameron Dr., Tel: 727-7477

Prescott
Drug Store Pharmacy, Your Independent Grocer, 150 Prescott Centre Dr., Tel: 925-1630

Ottawa
Drug Store Pharmacy, Loblaws, 3201 Greenbank Rd., Tel: 825-3748

Drug Store Pharmacy, Loblaws, 363 Rideau St., Tel: 789-3346

Drug Store Pharmacy, Your Independent Grocer, 2681 Alta Vista Dr., Tel: 247-1070

Trenton
Drug Store Pharmacy, Your Independent Grocer, 298 Dundas St. E., 392-2435

Vanier
Drug Store Pharmacy, Loblaws, 100 McArthur Rd., Tel: 736-7366

Also, **Luke's Pharmacy,** previously on Lorry Greenberg Dr., can now serve PPN members at 2950 Bank Street, Ottawa. Their telephone number is 736-7366.

Check out **www.coughlin.ca** for the PPN pharmacy closest to you.

Fast facts

- Effective February 1, Quebec raised its minimum wage to $7.30 per hour.

- The Tax Court of Canada has ruled that the costs of herbal medicines and vitamins prescribed by a naturopath are not tax deductible unless they are dispensed by a registered pharmacist.

  In a January 13 ruling, the Court disallowed an individual's claim for over $11,800 of herbal medicines, vitamins and related medications because the appellant could not prove the medications were administered by a pharmacist. According to the Court, both case law and the Income Tax Act support the position that natural remedies must be administered by pharmacists before they can be eligible as tax deductions.

- The Manitoba Dental Association has introduced a two-tier fee guide to allow dentists living north of the 53rd parallel to charge an extra five per cent in addition to the 3.28 per cent weighted average fee increase for services provided within the province. Communities north of the 53rd parallel include: Flin Flon; Thompson; The Pas; and Churchill.

- A class action suit has been filed in the Quebec Superior Court on behalf of as many as 380,000 pensioners who were not told by the federal government that they were eligible to receive the Guaranteed Income Supplement (GIS). The suit alleges that the federal government did not inform elderly poor people that they qualified to receive the GIS, despite the fact that it had revenue databanks to identify qualified recipients.

  If the suit is successful, up to $3 billion may have to be paid to GIS recipients who were not told by the government that they qualify for the benefit. The GIS is a pension supplement paid to Old Age Security (OAS) recipients who make less than $12,648 per year. Today, more than 1.4 million OAS recipients also receive the GIS.

- According to information published by Liberty Health, in 1998-99, 36 per cent of Canadians over the age of 65 had been diagnosed with hypertension (high blood pressure), one of the leading causes of heart attack and stroke. In comparison, more than 50 per cent of Americans over the age of 60 were diagnosed with the condition.

- A national survey conducted by Decima Research for the Investors Group suggests that 74 per cent of working Canadians plan to continue to work after retirement. Today, only 23 per cent of retired people are employed. Almost 60 per cent of the 2,000 people surveyed said they do not know how much money they'll need in retirement. Nevertheless, over 41 per cent of respondents reported they intended to retire before age 60.

- The Canadian Institute for Health Information reports that total knee replacements for people under the age of 55 increased by 90 per cent between 1995 and 2000, while total hip replacements for the same age group rose by 30 per cent. Osteoarthritis is the major cause of joint replacements.