COUGHLIN COURIER

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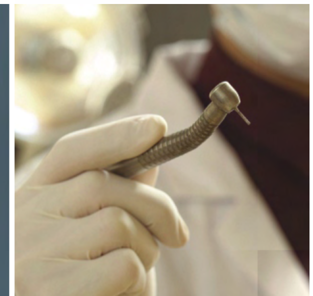
AT A GLANCE ...

COUGHLIN & ASSOCIATES LTD.

FEATURE



Trend factors continue their double-digit pace

Most Canadian health care trend factors continue to increase at double-digit rates, according to the latest *Canadian Health Care Trend Survey* conducted by ACS HR Solutions.

Using data provided by 11 major insurers with offices across the country, overall trend rates, which include both inflation and utilization rates, are now 13.20 per cent, a slight decrease from the 13.80 per cent recorded in 2005. While the overall trend rate is still almost six times the national rate of inflation as measured by the Consumer Price Index, it is showing signs of a decrease from previous years. In 2002, the overall trend rate was 15.70 per cent, the trend survey reports.

The annual report by ACS shows a broad downward movement in trend factors from 2002 in prescription, hospitalization and medical costs. However, this positive sign is muted by the fact that all three areas continue to suffer from double-digit increases.

Prescription drug costs continue to lead the way in trend factors, with annual cost increases tracking at 14.31 per cent, compared to 16.61 per cent four years ago. The sharpest decline was in medical coverages, which saw trend costs slump to 12.52 per cent compared to 16.21 per cent in 2002.

Meanwhile, hospitalization costs bucked the downward drift, recording an annual trend factor of

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Trend factors continue their double-digit pace *continued from cover*

12.13 per cent, a return to 2002 levels and an increase over last year of 1.2 per cent. De-regulation of semi-private room rates in Alberta may account for this increase, the report notes. The withdrawal from the market of expensive anti-inflammatory drugs such as Vioxx and Bextra may be a factor in the lowering of the prescription drug trends in 2006, according to the report. Cuts in hospitalization coverages by group benefit plans are considered to be part of the reason for the reduction in medical cost trends.

Dental trends remained stable in the four per cent range. Most provinces fix rates using the fee guide of their provincial dental associations.

The survey's annual trend factors from 2002 to 2006 follow:

Average trend factors by per cent by benefit 2002-2006*

PRESCRIPTION DRUGS

Year	Utilization	Inflation	Total trend
2006	5.53%	8.30%	14.31%
2005	5.68%	8.88%	15.13%
2004	4.20%	9.54%	15.60%
2003	6.32%	9.77%	16.61%
2002	8.60%	10.31%	17.01%

MEDICAL PLANS

Year	Utilization	Inflation	Total trend
2006	6.22%	5.63%	12.52%
2005	6.90%	7.24%	13.76%
2004	8.19%	8.74%	15.11%
2003	10.58%	5.90%	16.21%
2002	11.40%	7.56%	16.21%

HOSPITALIZATION

Year	Utilization	Inflation	Total trend
2006	5.29%	6.31%	12.13%
2005	4.18%	6.65%	10.95%
2004	2.63%	6.57%	11.07%
2003	4.91%	7.87%	12.51%
2002	5.26%	7.98%	12.23%

**Note: Since number of respondents per category varied, the utilization and inflation totals combined may not equal the total trends.*

DENTAL

Year	Total trend
2006	4.33%
2005	4.38%
2004	4.96%
2003	4.23%
2002	4.20%

OVERALL BLENDED TRENDS

Year	Total trend
2006	13.20%
2005	13.80%
2004	14.40%
2003	15.50%
2002	15.70%

Dental fee guide increases for 2006

Following are the dental fee guide increases by province for 2006.

Province	Fee guide increase by per cent
British Columbia*	3.52
Alberta**	2.80
Saskatchewan	4.89
Manitoba	3.50
Northern Manitoba***	3.50
Ontario*	3.70
Quebec	4.80
New Brunswick	2.60
Prince Edward Island	2.00
Nova Scotia	3.24
Newfoundland	3.70

*Estimated overall change. Costs vary by procedural code.

** No longer publishes a dental fee guide. Estimate based on data published by the Canadian Life and Health Insurance Association. (CLHIA).

***Northern Manitoba fees are 10 per cent higher than those used for the basic Manitoba fee guide.

PENSIONS

OSFI warns of pending pension crisis

Senior bureaucrats are rushing to warn new federal Finance Minister Jim Flaherty that several large private pension plans will be facing funding problems in the near future.

According to reports gleaned from the Access to Information Act and published in *Benefits Canada*, the number of pensions on the Office of the Superintendent of Financial Institutions' (OSFI) watch list has risen to 84 from 75 in September 2005.

The reports of troubled pension plans were confirmed by Superintendent Nicholas Le Pan in March when he told the Empire Club of Canada that his office has approved applications to reduce pension benefits for as many as 8,000 plan members. Plus, more reductions may be coming in the future.

"Our estimates show that three-quarters of defined benefit pension plans have a solvency ratio of less than one," he told the business group. Slightly more than half of these plans were in that condition in June 2005. (A ratio of less than one indicates that a pension's income payout obligations exceed the reserves it has on hand to meet those commitments.)

While continued low interest rates and rising costs are blamed for the funding shortfalls, the rapid rise of distressed plans is alarming enough for OSFI to call for "*short-term relief for corporate sponsors.*"

"*OSFI is receiving more requests by pension plans for reductions in benefits as plans look for ways to deal with increasing funding requirements,*" the *Benefits Canada* documents state. "*In many cases, these reductions in benefits affect both retired and active members.*"

Whether the new minority Conservative government would be open to offering relief to corporate sponsors from their funding obligations is another matter.

If relief does come, it may be in the form of legislated changes allowing plan sponsors to pay back pension deficits over 10 years instead of the current rate of five years. Financial bail-outs, or the establishment of a pension default insurance plan, similar to CDIC in the banking industry or CompCorp for insurance coverage, are considered unlikely.

In the US, the crunch has begun

The funding crunch has already begun in the United States as many of that nation's leading companies have announced that they will freeze contributions and new enrolments to their pension plans.

To date, more than 2,900 of the 31,000 private sector plans have frozen their benefits and membership lists. Many firms have replaced their defined benefits pensions with 401(k) plans, which are similar to group RRSPs. These plans don't require employers to set aside money to meet future pension income obligations. Instead, employees are encouraged to set aside money themselves, usually through payroll deduction, with no promise of a set income after they retire.

Companies that have introduced pension freezes include:

Company	Employees affected
Alcoa	60,000
General Motors (US)	42,000
IBM	117,000
Northwest Airlines	3,200
Sprint Nextel	39,000
Unisys	17,400
Verizon	50,000

Quebec bill tackles RRSP creditor protection

The government of Quebec has passed legislation to further protect holders of registered retirement savings plans (RRSPs) from having their funds seized by creditors.

While creditor protection has long been a major selling feature of RRSPs, recent court decisions involving the Quebec Civil Code have highlighted design weaknesses that open registered plans to seizure by creditors during cases of bankruptcy.

The passing of Bill 136 by the Quebec National Assembly follows a case where a Quebec resident set up a self-directed RRSP issued by a trust company. Under the arrangement, the company acted as plan trustee, receiving instructions from the owner on investments. The plan also allowed partial or full withdrawal of funds at maturity and the option of letting the owner decide on the form and maturity of the fixed term when the funds were converted to a retirement income.

When the owner had financial difficulties, creditors attempted to seize the funds, which resulted in lengthy litigation that ultimately had to be resolved by the Supreme Court of Canada. In its decision, the Court ruled that the funds had not been sufficiently "*alienated*" (ie. segregated) under the terms of Article 2367 of the Quebec Civil Code. By allowing the control and disbursement of the funds to remain with the RRSP owner, the plan could not be considered a valid retirement trust, the Supreme Court said, therefore exempting it from seizure.

Bill 136 addresses the fund segregation issue in the following ways:

1. **Limiting control.** Control of retirement capital must remain with the institution. As a result, the investment choices of RRSP owners must be limited to those offered by the sponsoring financial institution. The type and choice of investment can no longer be made solely by the RRSP owner.
2. **Disclosure.** Any variables and computation methods used by any annuity connected with the plan must be specified when the plan is established. In effect, the plan will have to outline terms and parameters of the annuity contract at the outset of the plan. While outlining the types of annuity options available at plan maturity should not be a problem for most financial institutions, determining the actual annuity income calculation methods for plans that may not mature for decades is likely to be difficult. This could result in misinterpretation and further litigation in the future.
3. **Beneficiary designation.** The plan must have a designated beneficiary to receive plan funds or the annuity at death of the RRSP owner.

As part of the legislation, Bill 136 states that any RRSP funds that were seized or transferred to third parties prior to December 6, 2005 because they did not comply with Section 2367 of the Civil Code be restored to their original owners. However, the act did not specify any time frame for this process. While Section 2925 of the Civil Code imposes a three-year statue of limitations on such claims, it is unclear whether its restrictions or the more open-ended terms of Bill 136 will prevail.

Majority plan to cut retiree benefits

More than half of Canadian employers plan to cut or eliminate the benefits they pay to their retirees, the *Globe and Mail* reports.

According to published reports, 57 per cent of 217 Canadian organizations surveyed plan to force their pensioners to pay for their drug, dental, vision care and other benefits, before the glut of baby boomers, those born in the years between 1946 and 1964, retire. At least four per cent of plan sponsors plan to cut benefits for their retirees altogether while the bulk report they hope to keep some cost-sharing arrangements.

According to the report, many employers fear being stuck with expensive "*legacy costs*", such as retiree benefits, which add costs to their products and services. Citing examples such as General Motors and the Ford Motor Company, which have seen retiree benefits costs balloon to almost 10 per cent of their payrolls, most hope to avoid paying the mounting health care costs associated with these benefits. Medical coverage, especially prescription drugs, has increased by an average of 15 per cent per year since 2000.

In addition, with jurisdictions like Quebec and Alberta considering introducing private health care coverage, almost 60 per cent of the 217 organizations noted that they had no intention of covering any private health costs under any circumstances, the *Globe and Mail* reported.

HEALTH & CLAIMS

Workplace stress means greater extended health costs

That problem co-worker or exasperating boss could be costing your organization more in extended health care costs.

According to The Public Health Agency of Canada, workplace stress and conflict is one of the major contributors to rising health care costs, accounting for over $6 billion in total health care spending each year. Since employer-sponsored benefit plans now pay for roughly one-third of all medical costs, that means that workplace stress generates approximately $2 billion in additional expenses for plan sponsors each year.

The government study of 31,500 employees of medium to large organizations suggests that physician calls would be reduced by 25 per cent and hospital visits by 17 per cent by eliminating work-life conflicts. With one in four Canadians now working more than 50 hours per week, compared to one in 10 in the last decade, the pressures of balancing work pressures and family responsibilities is making more people ill, the Health Canada report suggests.

The study goes on to report that workers suffering from high workloads and stress are:

- 2.6 times more likely to seek care from a mental health professional;
- 2.4 times more likely to receive hospital care on an out-patient basis;
- 1.9 times more likely to spend more than $300 per year on prescription drugs;
- 1.8 times more likely to make six or more visits to a physician each year; and
- 1.4 times more likely to visit a hospital emergency room.

The study goes on to assert that companies could save as much as $128 per employee per year in prescription drug costs alone, simply by reducing the stress on their workforce.

Employee assistance plans (EAPs) can help alleviate some of these problems by providing a channel for stressed workers to access counsellors, medical and other professionals before having to use the health care system. Contact your Coughlin & Associates Ltd. consultant for more information on EAP services.

Impact of pneumonia doesn't end with recovery

Although not the killer it once was, pneumonia still accounts for more than 7,500 deaths and 60,000 hospitalizations each year.

Although today's antibiotics make the chances of recovery from the disease far greater than in the past, that recovery may "*only provide a short-term lease on a future healthy life*" says a study conducted by the US Centre for Disease Control and Prevention.

In a study of 366 pneumonia patients aged 18 to 80 who initially recovered from the illness, 125, or 34 per cent, were dead three years later. That death rate is five times higher than that of the general population. According to the research, which was published in the *American Journal of Respiratory and Critical Care Medicine*, former pneumonia patients are more likely to have cardiovascular problems, diabetes and other chronic illnesses. The study suggests that the disease weakens the immune system, leaving its victims more open to other health problems.

The mortality rate was particularly high among those in the 40 to 60 age group.

For plan sponsors, this data could be a warning to be cautious when reviewing long-term disability and other claims involving pneumonia. While initial recoveries from the illness may appear to be robust, its presence could be a harbinger of other major illness -- and claims -- in the near future.

Average length of hospital stay, US 2003

Psychoses	8.0 days
Malignant neoplasms	6.7 days
Pneumonia	**5.5 days**
Fractures	5.4 days
All diagnoses	4.8 days
Heart disease	4.6 days

Source: US Centre for Disease Control and Prevention

HEALTH & CLAIMS

Canadians crave drugs

We have received many positive comments on February's special issue of the *Coughlin Courier* that focused on the rising use and cost of prescription drugs.

The prescription drug issue and its impact on our health care system and employee benefit plans is huge. How huge? The following data may put the issue into perspective.

Prescriptions dispensed in Canada 1994-2004 (millions)

1994:	219.7
1995:	228.2
1996:	234.6
1997:	241.9
1998:	254.2
1999:	271.6
2000:	290.7
2001:	312.6
2002:	335.0
2003:	361.4
2004:	381.6

Increase: 1994-2004: 161.9 million (74 per cent)
(Source: IMS Health)

Amount spent on prescription drugs in 2004:	$18 billion
Percent paid by employee benefit plans:	34 per cent
Annual premiums paid by employers for drug coverage:	$6.7 billion
Percentage of workers without drug coverage:	42 per cent
Number of residues of prescription drugs and cosmetics found in groundwater, sewage and water supplies in urban centres in Europe and the United States:	100
Estimated number of Canadian deaths attributed to misuse and over prescription of drugs:	12,000

(Source: Globe & Mail)

FAST FACTS

British Columbia has changed its Employment Standards Act to include compassionate care leave. Employees may now take up to eight weeks of unpaid leave to care for immediate family members who are terminally ill or at risk of dying within 26 weeks. Immediate family members include: spouse, parent, sibling, guardian, grandchild or grandparent of the employee or a person who lives with an employee as a member of his/her family.

At least one major Canadian insurer has established an annual limit on Tamiflu, the popular influenza treatment used to reduce flu symptoms, particularly H5N1, or bird flu. Sales of the medicine have skyrocketed since threats of a global flu pandemic surfaced earlier this year. Noting that claims have escalated far beyond the amount deemed necessary for treatment, the company has set its reasonable and customary rate at $180 per person per year. Approximately half of the 120 people worldwide who have contracted the H5N1 virus have died.

More then eight per cent of Canadians age 50 through 64 have been told by a medical professional that they had diabetes.

PPN UPDATE

Towngate Pharmasave at 115-2446 Bank Street is now known as Towngate IDA. Their phone number remains 613-247-9883.

Crown Pointe Pharmacy recently joined our Preferred Provider Network (PPN). The address is: Unit 13, 900 Watters Road (at Trim Road), Orleans, Ontario. Telephone: 613-590-0230.