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AT A GLANCE ...

COUGHLIN
employee benefits specialists

The pension crisis: the good; the bad; the ugly

The year 2008 went down in history as the year of the largest equity market collapse since 1929.

The worldwide crash saw stock markets plunge to levels not seen in decades, dragging with them pension valuations and liquidity.

The Toronto Stock Index alone plunged from a 2008 high of more than 14,500 points in June to 8,600 at year's end, a decline of 40 per cent. The only good news was that equity markets in other world markets suffered equally as bad — or worse — results and that Canada's banking system has, so far, been spared the confidence robbing bankruptcies and bailouts of its major financial institutions, as has been the case in the United States and the UK.

For pension plan administrators, trustees and pensioners, the one common question appears to be: *"How bad is it"*? The answer could be seen as solvency ratios, the measure of pension plans' assets to their liabilities.

According to the Watson Wyatt Pension Index, liquidity ratios dropped from a once worrying 96 per cent to 69 per cent, a 27 per cent collapse in less than six months. The Mercer Pension Health Index recorded a 23 per cent decline with a year-end solvency ratio of 59 per cent.

While solvency ratios can sometimes be regarded as a theoretical exercise in the event of a pension plan sponsor's bankruptcy, for some those ratios are turning into frightening realities as an increasing number of companies report major financial losses, downsizing and, in some cases, bankruptcy.

Complicating the picture is the decline in the Bank of Canada's trend-setting overnight rates to one per cent, the lowest level since 1958, blocking any chance of interest values superseding equity returns as the motor for pension fund growth.

With pension issues now occupying centre stage in legislatures and equity markets, reactions, proposals — and possible solutions to the crisis — are now coming from every quarter. The following summarizes the good, the bad and the ugly sides of the pension meltdown as of January 2009:

The good

As plan sponsors across the country grappled with the pension solvency problem, various governments have stepped in to provide legislative or regulatory relief. Following are some proposed initiatives:

Ontario

Ontario has introduced legislation that would adopt the following measures retroactive to September 30, 2008:

- extending the pension solvency amortization period, the time when plan sponsors must make up any funding ratio shortfalls, from five years to 10 years;
- deferring for one year the required catch-up payments on valuation reports that would normally be filed at the end of December 2008;
- allowing actuarial gains to reduce annual cash payments by plan sponsors; and
- extending notice periods of plan changes to active and retired plan members.

The issue of what percentage of active and retired members of pension plans must consent to these changes is still to be determined.

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EI premium changes broke law, Court rules

The Supreme Court of Canada has ruled that the federal government broke constitutional law when it changed Employment Insurance (EI) program contribution rates without parliament's consent.

In a 7-0 ruling, the Court said that in 2002, 2003 and 2005, the government violated the common law principle of *"no taxation without representation"* by changing the premiums paid by workers without authorization from parliament.

In its ruling, the Court rejected arguments of Quebec's Confederation des Syndicats Nationaux that the $54 billion collected by the EI program at that time should be returned to the program and used to fund worker training programs.

The union contended that the federal government ran up large surpluses in the EI fund by deliberately overcharging premiums while reducing program benefits. The government then diverted the money to help balance federal budgets. The system was widely criticised by labour and business groups and by federal Auditor General Sheila Fraser.

From 1997 to 2007, the Employment Insurance program reported large surpluses due to lower unemployment rates and the tightening of EI eligibility requirements. In 2008, the government said it would establish a separate crown corporation to manage the program on a breakeven basis.

The Court gave the federal government one year to introduce legislation to correct the problem. ❧

Federal budget highlights

Promising lower taxes and vastly increased spending, Federal Finance Minister Jim Flaherty tabled the federal government's 2009 budget this past January.

Designed to provide more than $40 billion in fiscal stimulus to combat a projected 0.8 per cent decline in gross domestic product this year, the plan offered across the board spending to support everything from municipal infrastructure to aboriginal housing as well as various tax incentives to middle income earners and small businesses.

While most of the budget tended to focus on the various local and regional projects that will receive federal government support, Mr. Flaherty's plan did offer the following to plan sponsors, employers and taxpayers:

- A freeze on Employment Insurance payroll taxes for two years.
- The establishment of a Canadian securities regulator to replace the current network of 13 separate provincial and territorial regulators.
- More protection for workers whose employers go bankrupt.
- The establishment of an expert panel to recommend extending maternal and paternal Employment Insurance benefits to the self-employed.
- Extending the maximum period an individual can receive Employment Insurance benefits by five weeks to 50 weeks. (However, the current inequities in the EI program will remain. Workers in the Atlantic provinces and Quebec will continue to be eligible to receive benefits for a longer period than those in Ontario, despite the fact they pay the same premium rates.)
- An increase in the basic personal amount, the amount an individual can earn before paying any federal income tax, from $9,600 in 2008 to $10,320.
- An increase in the upper limit of the two lowest income tax brackets as illustrated below:

Proposed	2008 level	Rate
Less than $40,726	Less than $37,885	15%
$40,726 to $81,452	$37,885 to $75,769	22%
$81,452 to $126,264	$75,769 to $123,184	26%
Over $126,264	Over $123,184	29%

- The required minimum withdrawal for registered retirement income fund (RRIF) owners will be reduced by 25 per cent for the 2008 tax year. ❧

More than one in 10 workers has a diagnosable mental illness

Approximately 12 per cent of the population age 15-64 has a diagnosable mental health condition in any given year, a report published by Wilson Banwell/PROACT Human Solutions says.

While mental illness accounts for the largest portion of disability claims, simply categorizing a medical condition as *a mental illness* does not necessarily serve either the plan sponsor or the member.

Just as cancer rates can vary by disease type, incidence rates of the various mental illnesses also vary considerably, as the following information published by Wilson Banwell/PROACT Human Solutions illustrates:

Medical condition	Prevalence rates in working age population*
Major depression	8 to 14 per cent.
Bipolar depression	2.4 per cent.
Social anxiety and phobias	8.0 per cent
Panic disorder	2.1 per cent
Schizophrenia	0.5 per cent
Suicide	4.0 per cent

(*From: *A Quiet Crisis. The Business Case for Managing Employee Mental Health. Human Solutions™ Report 2008.*)

For plan sponsors and administrators, the Wilson Banwell/PROACT Human Solutions report not only confirms the relatively high incidence rates of mental illness among employee populations but also the need for disability management specialists to be aware of the distinctions between clinical definitions of illnesses such as *major depression* and *bipolar depression*. While the term *depression* is shared by both conditions, the displayed behaviour, length of illness, and age associated with the two conditions can vary considerably.

"The sad truth is simply that most businesses do not provide a level of attention and investment in mental health conditions that corresponds to their level of prevalence and cost burden," the report stresses.

More information on the report can be found at www.humansolutions.ca. ❧

Health the main reason for retirement

Why do most people retire?

Despite popular images associated with retirement, health concerns — not money or dreams of playing golf year round — are the primary reason why most people retire, according to an October 2008 RBC poll conducted by Ipsos Reid.

The nation-wide survey of 1,272 retired individuals indicated that more than 25 per cent cited health issues as the main reason for their retirement. Qualifying for a company pension followed in second place at 24 per cent and company downsizing was listed in third place at 13 per cent.

When asked what was the best gift a person could receive in retirement, 53 per cent of respondents said *good health,* again confirming its priority among the retired population.

Ironically, among non-retireds surveyed, financial issues were the primary concern in their retirement planning and were cited as the top priority among 38 per cent of respondents. Only 34 per cent of the working population surveyed said *good health* was the best retirement gift.

"We are seeing that pre-retirees have not planned for the possibility that health issues may force them to retire," says RBC Advanced Retirement Strategies Consultant Lee Anne Davies. *"It's important to take time to think about how changes in your health, or the health of someone depending on you, could affect when and how you live in retirement."* ❧

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The pension crisis: the good; the bad; the ugly

Manitoba

Manitoba has introduced special relief legislation to plan sponsors whose funding payments are up-to-date but whose solvency may have declined during the market correction. The program only covers the first pension valuation report filed with the Office of the Superintendent prior to January 2, 2011. Under the plan, solvency deficiencies may be consolidated and amortized over a single 10-year period.

Quebec

The province of Quebec has announced that the Quebec Pension Plan (QPP) will take over the management of insolvent pension plans and guarantee the retirement income of affected workers for five years.

Retroactive to December 31, 2008, the plan will guarantee that pensioners of failed companies will receive their portion of the remaining funds in a plan as income for five years. For example, if a pensioner was eligible to receive a $1,000 monthly pension but, at the time of the plan sponsor's insolvency, the pension was cut to $700 per month, the Quebec government would guarantee the $700 payment level for five years.

The province stressed that it will not guarantee full payouts to workers nor does it expect to provide contributions to fund failing pensions.

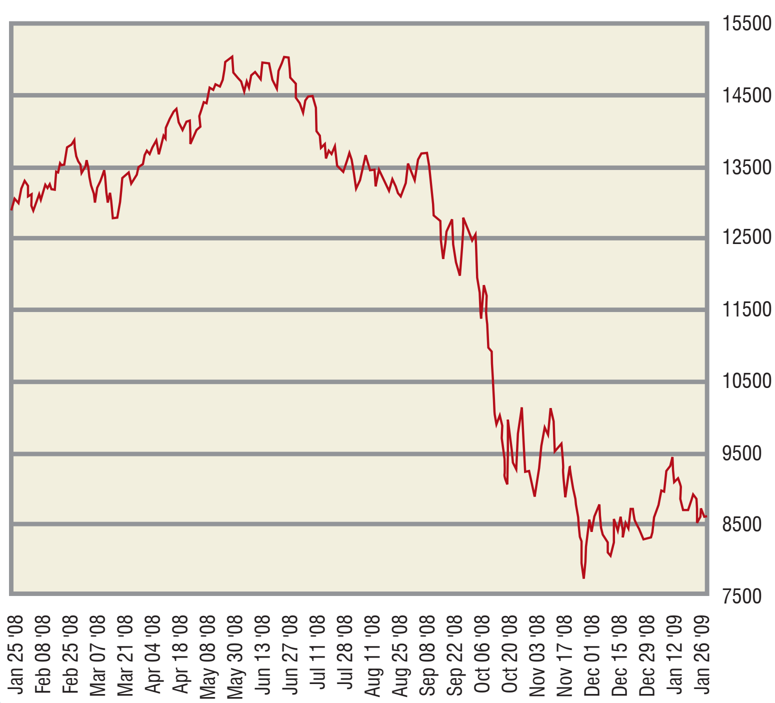
The legislation also extended the solvency amortization period for funding ratio shortfalls, from five years to 10 years.

Saskatchewan

The Saskatchewan government has released a discussion paper allowing plan sponsors to defer pension funding valuations for three years for pension plans with valuation dates ranging from December 31, 2008 to December 31, 2009.

The plan would apply to new solvency deficiencies, not those already recorded in previous valuations.

From good to bad to ugly: The Toronto Stock Exchange, January 2008 – January 2009



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British Columbia and Alberta

The Joint Expert Panel Report on Pension Standards for Canada's two western-most provinces has recommended that British Columbia and Alberta establish a joint pension plan for workers who currently do not have pension coverage.

If adopted by both provinces, the plan would cover workers in both jurisdictions and be governed by a joint pension advisory council and regulator.

The new provincial pension plan would be a defined contribution arrangement.

The Joint Panel also proposed harmonizing the existing pension legislation of both provinces.

Also among its recommendations: encouraging the federal government to change the Income Tax Act to allow the limit on pension plan surpluses to be extended to 125 per cent of plan liabilities from the current level of 110 per cent.

Canada

Despite losing more than $10 billion in the quarter ending September 30, 2008, and likely a similar amount in the following quarter, the Canada Pension Plan Investment Board says that Canada Pension Plan (CPP) assets remain healthy at more than $100 billion.

Despite the growing recession, both the returns on CPP investments, as well as employer and employee contributions, continue to be robust. Plan assets are expected to reach $310 billion by 2019.

Today, the CPP is able to pay pension benefits strictly from the contributions it receives from employees and employers. It does not expect to have to touch its pool of capital until 2020, when the peak of the baby boom generation retires.

The bad

OSFI alert

The Office of the Superintendent of Financial Institutions has issued an alert to federally regulated defined benefit pension plan sponsors that, due to the equity market decline, they should be prepared for the following:

- despite the extension of the solvency amortization period from five to 10 years, contribution requirements for plan sponsors may still be "materially higher" in 2009 than in 2008;
- defined benefit plans with negotiated contribution rates not sufficient to meet minimum funding requirements for 2009 are expected to provide OSFI with an action plan to address the problem;
- plan sponsors that have taken pension contribution holidays are expected to review their solvency position and assess whether they should continue to defer plan contributions;
- report any pension fund liquidity pressures, such as sales of fund assets at depressed values; and
- develop long-term scenarios that *"include the possibility of protracted market weakness and think about possible responses that are consistent with their risk tolerance."*

Bad news for fund managers

A survey of Canadian and European pension funds by *bfinance,* an international investment consultant, indicates that 63 per cent of pension plan sponsors intend to review their investment strategies, thanks to the equity market meltdown.

Among areas to be studied are: asset allocations; decreases in long-term investments; increases in fixed income investments; and increases in private equity investments.

As well, 77 per cent of respondents said they plan to review the performance of their investment managers.

"We anticipate the crisis will act as a catalyst for pension funds to seek more independent and transparent investment advice," says Marc Godin, bfinance managing director for Canada. *"There will be greater scrutiny of each step of the investment process from manager selection and their underlying products to ongoing performance of the investment portfolios."*

Take my spouse…please

The Ontario government has introduced legislation to allow spouses that separate or divorce prior to retirement to apply for a pension plan administrator to transfer 50 per cent of the net value of a member's pension to his/her spouse.

Under current rules, spouses must defer receipt of their share of a pension until a pension payment is triggered by the member's death, termination or retirement. Plus, instead of having to hire an actuary to conduct a valuation of the pension plan, members and spouses will be able to apply to the plan administrator for a valuation.

The bad news: with average pension values down by 30 or more per cent in the last six months, those valuations are sure to be open to dispute during contested or complex divorces.

The ugly

With one company already under bankruptcy protection and the other rumoured to be on the brink, the pension plans of **Nortel Networks Corporation** and **General Motors of Canada** are sure to be the focus of pension experts, governments and regulators in 2009.

In a recent ruling concerning Nortel's bid for bankruptcy protection, the Ontario Superior Court said that Nortel *"shall be entitled to but not required to pay wages, salaries and employee benefits as well as current service and payments to pension plans."*

The ruling affects 16,000 Nortel pensioners and 13,000 active employees and leaves them with few guarantees, severance payments or pension relief.

In 2007, the company reported a pension deficit of $1.7 billion US. Estimates for 2008 range as high as $2.8 billion US, according to analysts' reports published in the *National Post* newspaper.

Should the bankruptcy protection arrangement fail, the Ontario Pension Benefits Guarantee Fund, which protects pension plan payments for up to $1,000 per month per pensioner, could be faced with a huge liability: $192 million in the first year alone.

As of March 2008, the Guarantee Fund contained $175 million. By the end of 2008, it had a *deficit* of $102 million.

Complicating the situation is General Motors of Canada and the other *"Big Three"* auto manufacturers.

As of November 2008, General Motors reported that its Canadian operations had pension shortfall of $4.5 billion, according to reports published in *The Globe and Mail.* The Ford Motor Company's pension liability is reported to be $900 million. The Chrysler pension plan was fully funded at the end of 2007. However, the impact of the 2008 crash on that company's pension plan is still to be published.

Should any of the *"Big Three"* enter bankruptcy, the Ontario government would again face a massive liability. General Motors alone has more than 30,000 pensioners or, potentially, a minimum first year liability of $360 million for Ontario Pension Benefits Guarantee Fund should the situation turn truly ugly. ❧

Claimed sick days vary by province and occupation

As the season for flu and other winter illnesses takes hold, employers and employees alike begin to tally the number of available paid sick days.

While most companies provide paid sick leave benefits, the usefulness of the benefit can be measured directly in proportion to the number of sick days taken by its employees each year. And that can depend largely on the company's location and the individual employee's profession.

According to Statistics Canada, employees in Alberta take the fewest number of sick days per year, averaging just 5.6 days per employee. Quebec reports the highest number of days taken per employee at 9.4 days.

When it comes to trends by profession, ironically, those working in the health care and social services sector take the most days off for sickness, according the Statistics Canada, with 14.4 days per employee per year. Transportation and public administrators followed at 11.1 days and 10.9 days per employee respectively.

The healthiest group appears to be those working in the professional, scientific and technical professions, who average just 5.6 days off per year for sickness. Construction workers also appear to be quite healthy, following with 7.2 sick days taken annually. ❧

The Statistics Canada data follows:

Average number of sick days taken per employee by province

BC:	7.3 days
Alberta:	5.6 days
Saskatchewan:	8.0 days
Manitoba:	8.0 days
Ontario:	6.7 days
Quebec:	9.4 days
New Brunswick:	8.0 days
Nova Scotia:	9.1 days
PEI:	6.0 days
Newfoundland:	8.8 days
Canadian average:	*7.5 days*

Average number of sick days taken per employee by occupational group

Health care and social services	14.4 days
Transportation	11.1 days
Public administration	10.9 days
Utilities	10.2 days
Manufacturing	9.9 days
Business and support services	9.6 days
All service industries	9.2 days
All goods producing industries	9.1 days
Education	8.8 days
Accommodation & food services	7.9 days
Primary industries	7.9 days
Financial, insurance, real estate	7.8 days
Information, culture and recreation	7.8 days
Trade	7.6 days
Construction	7.2 days
Professional, scientific & technical	5.6 days

PEI covers diabetes test strips

The province of Prince Edward Island (PEI) has announced that it will cover the cost of blood glucose testing strips for diabetics.

The new program will allow diabetics to purchase up to 100 testing strips per 30-day period. The arrangement includes an $11 per purchase co-insurance feature. The program does not cover other related diabetes monitoring equipment such as blood glucose monitors, syringes, needles or insulin pumps.

To be eligible for coverage, patients must:

• be eligible for PEI Medicare;

•have Type I or Type II diabetes;

•have used insulin within the past 90 days; and

•not be eligible to receive blood testing strips through another provincial health care plan or any federal government program. ❧

2009 government benefits limits

Following are the maximum benefits or limits for selected government benefits for 2009:

Old Age Security (OAS)	
Maximum pension income	$516.96 per month
Canada/Quebec Pension Plan (C/QPP)	
-Maximum pension income	$908.75 per month
-Yearly maximum pensionable earning (YMPE)	$46,300.00
-Contribution rate: employee	4.95 per cent
-Contribution rate: employer	4.95 per cent
-Maximum annual contribution: employee	$2,118.60
-Maximum annual contribution: employer	$2,118.60
Employment Insurance	
-Maximum weekly benefit	$447.00 per week
-Maximum yearly insurable earnings	$42,300.00
-Maximum contribution: employee	$731.79
-Maximum contribution: employer	$1,024.51
Quebec Parental Insurance Plan	
-Maximum yearly insurable earnings	$62,000
-Contribution rate: employee	0.484 per cent
-Maximum employee premium	$300.08
-Contribution rate: employer	0.677 per cent
-Maximum employer premium per employee	$419.74
Registered pension plan (RPP) contributions	Lesser of 18 per cent of income to a maximum of $22,000 per year.
Registered retirement savings plan contributions	Lesser of 18 per cent of income to a maximum of $21,000 per year.
Deferred profit sharing plan contributions	One-half of the RPP limit to a maximum of $11,000 per year.
Pension adjustment (PA) for defined benefit pension plans	$2,444.44

Error means income drop for UK pensioners

If Stephen Harper has a problem with the solvency of Canada's pension plans, he can thank heavens he hasn't got the problem of UK Prime Minister Gordon Brown.

The British government has announced that miscalculations in government pension payments over the past 30 years resulted in overpayments of more than £126 million, or approximately $250 million Canadian.

Rather than clawing back the lost funds, the average pensioner will experience an income decline of £220 per year. More than 100,000 retired teachers, judges, doctors, civil servants and military personnel will be affected by the income reduction.

To date, no single cause has been found for the error in pension income calculations. ❧

Fast facts

- The new year began with savings for Alberta residents. Effective January 1, 2009, the province discontinued annual premiums on its provincial health care plan. Savings amount to $528 annually for those with single coverage and $1,056 for residents with family coverage.
- A survey by *Workopolis* indicates that Canadians are working an average of three hours more than our employers expect each week, or 145 hours per year. The hardest working Canadians by profession are: mothers; nurses; air traffic controllers; surgeons and fire fighters. Mothers were included due to the level of responsibility, non-standard work hours, physical effort, mental concentration and stress associated with their job.
- Effective January 1, 2009, pharmacists in British Columbia can modify existing prescriptions or renew routine prescriptions within specific guidelines. The changes mirror policies recently enacted by the provinces of Alberta and New Brunswick.
- A survey of 948 Quebec adults conducted by the National Sleep Foundation suggests that insomnia costs the province as much as $6.6 billion per year in direct medical costs including prescriptions and medical consultations, and indirectly in workplace absenteeism.
- Between 30 and 40 per cent of long-term disability claims can be attributed to mental health issues, according to the Business and Economic Roundtable on Mental Health. The cost to the economy in lost productivity: $35 billion.
- The average duration of short-term disability by illness as reported in *Santé mentale et stress au travail,* published by Sun Life:
  - mental health: 72 days;
  - lower back: 37 days;
  - heart problems: 37 days;
  - hypertension: 28 days; and
  - diabetes: 26 days.
- Smoking-related illness cost US employers more than $165 billion in health expenses and lost productivity, according to the US-based National Business Group on Health.
- The average annual deductible for group medical, dental and vision care coverage in the United States, based on a Mercer study of 2,900 companies: $1,001. The average coverage per employee for these benefits amounted to $8,482.
- What would it take to feel *rich?* According to a survey conducted by ADP Canada to promote National Payroll Week, the average Canadian would need an annual income of $296,000 to feel *"rich."* A similar study in the US suggests that it would take a $440,000 income (US), or approximately $528,000 in Canadian funds, for an American to feel the same way.

  The salary of Canada's prime minister: $300,000 Canadian; of the American president: $400,000 US. (Those figures do not include perks such as free housing, transportation and other allowances that come with both positions.) ❧

PPN update

- **Richmond IDA Pharmacy** has joined the Coughlin & Associates Ltd. Preferred Provider Network. They are located at 6179 Perth Street in Richmond, Ontario. Their phone number is 613-838-5323.
- The former Almonte Pharmacy, now Pharma Plus, of 24 Mill Street in Almonte, is no longer a member of the Coughlin PPN. ❧

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