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2008 budget features a new registered savings product

The 2008 federal budget opened the door for the introduction of a new registered savings product.

If the budget is passed by Parliament, Canadians will be able to invest up to $5,000 per year in the new tax-free savings account (TFSA), beginning as early as 2009.

According to Finance Minister Jim Flaherty, the new registered savings account will be designed to encourage individual savings by complementing the country's existing registered retirement saving plan (RRSP) regime. Unlike RRSPs, contributions to tax-free savings accounts will *not* be tax deductible during the year of deposit. However, funds may be withdrawn after contribution without tax implications. As well, investment income, including capital gains, earned within the account will not be taxed.

According to information published on the Canada Revenue Agency website, TFSAs will be available at most financial institutions including banks, credit unions, trust companies, life insurers and other institutions eligible to issue registered retirement savings plans. Individuals must be age 18 or older to open a TFSA account and can own more than one TFSA product.

Like RRSPs, TFSAs will be able to invest in a variety of vehicles including GICs, bonds, stocks, mutual funds and other securities.

Other proposed product features include the following:

- An individual's maximum annual contribution room will be determined annually by the Canada Revenue Agency based on information provided by his/her tax file (similar to RRSPs).
- TFSA assets may be used as security for loans.
- Interest on money borrowed to invest in a TFSA will not be tax deductible.
- Contribution room left over from prior years may be carried forward. For example, if an individual contributed $3,000 to the TFSA in 2009, the remaining $2,000 of the $5,000 annual contribution limit can be channelled to his/her 2010 contributions.
- Money can be withdrawn from a TFSA fund tax-free. Plus, withdrawals will not be applied against income-tested federal programs such as the Goods and Service Tax Credit, the Child Tax Benefit, the Working Income Tax Benefit or similar benefits. They will also not affect federal income benefits such as Old Age Security, the Canada Pension Plan, the Guaranteed Income Supplement and Employment Insurance.
- TFSA assets will be transferable on a tax-free basis to a surviving spouse or common-law partner upon the death of the account holder, without impacting the contribution room of the spouse/partner.

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Law to protect reservists' positions

The federal government says it will introduce legislation guaranteeing that members of the Canadian Reserve Forces who are deployed temporarily for military service will be able to be reinstated to their former civilian jobs on their return from active service.

While similar guarantees were available in some provinces, no such protection was provided to federally regulated industries and the federal public service.

The new program will be similar to the federal maternity leave program. Reservists will be required to work at least six months with an employer before being eligible for the unpaid leave. Upon a reservist's completion of military service either outside Canada or internally following an emergency, his/her employer will be required to reinstate the reservist to the same position, if it still exists, or to a comparable position, if the position is no longer available.

Reservists will be required to provide written notice to their employers before beginning or ending their military leave. Employers will not be required to contribute to any benefit plans during the leave period. ❧

...continued from cover

2008 budget features a new registered savings product

- Unlike registered retirement savings plans, which have a contribution limit of age 71, the new TFSA plans will not include a contribution age limit.

While details need to be confirmed, it is anticipated that the product will be available on both a group and individual basis.

Other budget highlights

Other important highlights of the proposed budget include the following:

1. Providing more flexibility to federally regulated life income funds (LIFs)

Under the new budget's provisions, LIF holders age 55 or older with holdings up to $22,450 will be able to wind-up their entire LIF accounts and convert them to other tax-deferred savings vehicles. As well, all LIF holders age 55 or older will be entitled to convert up to 50 per cent of their holdings to tax-deferred accounts (there is no maximum withdrawal limit).

Individuals facing financial hardship will also be entitled to unlock up to $22,450 from their plans. (The term *financial hardship* includes low income and/or high disability or medical related costs.)

2. GIS terms more liberal

Seniors receiving the Guaranteed Income Supplement (GIS) will now be able to earn up to $3,500 without facing a claw-back of their benefit.

3. Employment Insurance (EI) Financing Board

The federal government plans to establish a new crown corporation, called the Canada Employment Insurance Financing Board, to manage Employment Insurance Program surpluses and set premiums for the program. The Canadian Institute of Actuaries proposed a similar concept in early December 2007.

Currently, the EI program generates a surplus of almost $54 billion annually, most of which is channelled to the federal government's general revenue. The new crown corporation will be mandated to achieve a break-even operational level for the program each year, opening the hope for lower EI premiums for employers and employees.

4. OTC drugs

Over-the-counter (OTC) drugs will no longer be eligible medical expenses under the Medical Expenses Tax Credit.

Although this is being positioned as a "clarification" of existing legislation preventing the tax deductibility of vitamins and supplements, many medical plans and healthcare expense accounts include some coverage for OTC drugs or medications, in special circumstances. More information will be provided as it becomes available. ❧

Cancer drug's 900 per cent price jump sparks review

The Patented Medicine Prices Review Board says it will review pricing of the cancer drug thalidomide, also known by the brand name Thalomid, after its price jumped by more than 900 per cent.

The medication, used to treat multiple myeloma, is produced in Brazil at a cost of less than 10 cents per capsule. In Canada, patients now must pay $35 per capsule, or $4,200 per month, to buy the drug.

Despite being on the market for almost 50 years, the medication has never received licensed approval by Health Canada. However, it has been widely available under the health agency's special access program. Thanks to that loophole, the manufacturer avoided the normal price regulation.

Thalidomide is widely known for causing disfiguring birth defects 40 years ago. However, the same mechanism that caused the birth defects, the damaging of blood vessel growth, has also been found to starve some cancer tumours. The drug also can stimulate the immune system to help the body defend itself against cancer. As a result, its popularity has soared in recent years.

Thalomid is one of the most requested drugs under the special access program, accounting for more than 25,000 requests from 2002-07, according to Health Canada.

"We see no reason why Canadians purchasing medicines through Health Canada's special access program are any less deserving or needful of protection by the board," the Patented Medicine Prices Review Board said in its January 21, 2008 decision.

When reviewing a drug's price, the Review Board normally compares the drug's prices to those in other developed countries in Europe as well as the United States. If the Board finds the price of the drug to be excessive, it can compel the manufacturer to repay the price excesses to the federal government. ❧

Generic drug prices too high, Competition Bureau says

A federal government investigation of generic drug prices indicates that Canadians pay more for generic drugs than citizens of other developed countries.

According to the Competition Bureau draft report filed in August 2007, savings resulting from price competition among generic drug manufacturers are not being passed to consumers, taxpayers or insurers.

In its review, the Bureau said, *"It is apparent now that the supply of many generic products has become increasingly competitive but the effects of the competition that takes place among manufacturers have traditionally not been reflected in retail prices for generic drugs. There is widespread concern that generics are not providing the benefits they could."*

While competition among the companies is considered healthy, the way in which the various generic drug companies compete for market share prevents savings from reaching the average consumer, the Bureau suggests. Most generic drug manufacturers compete by providing rebates to pharmacies. However, despite the rebate plus a limited mark-up of 10 per cent on some drugs and dispensing fees, consumer savings are being stymied by provincial drug plans that control retail prices of generic drugs, the Bureau says.

According to the Fraser Institute, generic drug prices in Canada are more than double those in the United States.

Reacting to the draft report, Federal Health Minister Tony Clement urged the provinces to restructure their drug plans to reduce generic drug prices. ❧

Coughlin PPN keeps growing

For the second time in less than six months, Coughlin & Associates Ltd.'s Preferred Provider Network (PPN) of pharmacies has experienced a major expansion.

At the beginning of this year, more than 110 Wal-Mart pharmacies joined Coughlin's province-wide network of participating pharmacies. With the addition of the Wal-Mart pharmacy network, the number of PPN participating pharmacies now totals **395**.

"With this expansion, plus the addition of the 207 Drug Store Pharmacy outlets in August 2007, the Coughlin PPN can now serve members in almost every corner of the province of Ontario," says Coughlin Consultant Joe Zadzora. *"It offers a tremendous advantage to our plan sponsors and their members and employees."*

PPN member pharmacies agree to limit dispensing fees to the Ontario Drug Benefit plan maximum (currently $7 per prescription) and cap the mark-up on certain dispensed drugs to 10 per cent of their wholesale price. All the employee has to do is present either his/her PPN or pay direct drug card at the participating pharmacy when filling the prescription. Savings are **immediate**. There is no extra paper work or commitment of any kind required.

Ultimately, the lower prescription costs result in lower drug claims and reduced costs for plan sponsors.

The Coughlin Preferred Provider Network was established in 1995 to help plan sponsors and members cope with rising prescription drug costs. The network originally involved fewer than 30 pharmacies, almost all located within the Ottawa-Carleton region. Today, PPN member pharmacies can be found in the following communities throughout Ontario:

Central Ontario

Angus
Barrie
Beaverton
Bracebridge
Chelmsford
Collingwood
Gravenhurst
Haliburton
Huntsville
Keswick
Midland
North Bay
Orillia
Owen Sound
Parry Sound
Port Perry
Stouffville
Sturgeon Falls
Wasaga Beach

Eastern Ontario

Almonte
Barrhaven
Belleville
Bourget
Brighton
Brockville
Carleton Place
Cobourg
Cornwall
Embrun
Gloucester
Hawkesbury
Kanata
Kemptville
Kingston
Lindsay
Manotick
Metcalfe
Moose Creek
Morrisburg
Napanee
Nepean
Orleans
Ottawa
Pembroke
Peterborough
Picton
Port Hope
Prescott
Renfrew
Rockland
Sharbot Lake
Smiths Falls
Stittsville
Trenton
Vanier

Golden Horseshoe

Ancaster
Agincourt
Ajax
Alliston
Aurora
Bolton
Bowmanville
Brampton
Burlington
Etobicoke
Fort Erie
Georgetown
Grimsby
Hamilton
Markham
Milton
Mississauga
Newmarket
Niagara Falls
North York
Oakville
Orangeville
Oshawa

Pickering
Richmond Hill
Scarborough
St. Catharines
Stoney Creek
Thornhill
Toronto
Uxbridge
Vaughan
Welland
Whitby

Northern Ontario

Dryden
Espanola
Fort Francis
Hanmer
Kapuskasing
Kenora
Kirkland Lake
Lively
New Liskeard
Sault Ste. Marie
Sudbury
Thunder Bay
Timmins

Southwestern Ontario

Amherstburg
Aylmer
Blenheim
Brantford
Caledonia
Cambridge
Chatham
Corunna
Elmira
Exeter
Fergus
Goderich
Guelph
Hanover
Ingersoll
Kingsville
Kitchener
LaSalle
Leamington
Listowel
London
Mount Forest
Port Elgin
Sarnia
Shelburne
Simcoe
St. Clair Beach
St. Thomas
Stratford
Strathroy
Tillsonburg
Wallaceburg
Waterdown
Waterloo
Windsor
Woodstock

ODB cuts 30 antibiotics

The Ontario Drug Benefit (ODB) Program has de-listed more than 30 popular generic antibiotic medications from its formulary.

Responding to manufacturers' price increases ranging from 20 to 90 per cent for five different classes of antibiotics, the provincial drug plan changed the classifications of the antibiotics to *"Not a Benefit"* status effective January 1, 2008. Drug classes featured in the de-listing include: Amoxicillin, Penicillin V, Cephalixin, Cloxacillin and Cefaclor.

Brand names at various dosage levels include: Apo-Amoxi; Apo-Cefaclor; Apo-Cephalex; Apo-Cloxi; Apo-Erythro E-C; Apo-Pen VK; Nadopen-V; Novamoxin; Nu-Amoxi; Nu-Cefaclor; Nu-Cefaclex; Nu-Cloxi; PMS Amoxicillin; PMS Cefaclor; and PMS Cephalexin.

Some insurers are interpreting the move by the ODB as an attempt to pass the dispensing costs of all but a limited number of antibiotics to the private sector.

Hardest hit by the ODB de-listing of the antibiotics will be those age 65 or older who will now have to pay for these common medications themselves and plan sponsors with benefit plans covering those age 65 or older. ❧

Can boomers' lifestyle expectations face the realities of retirement?

For baby boomers, it has always been about lifestyle and that won't change after retirement, according to the Fidelity Canadian Retirement Survey.

According to the survey of 1,000 adult Canadians age 45 or older, the majority of boomers, those born between the years 1946 and 1964, plan to maintain or improve their lifestyles after they retire, despite the fact that their savings may not be enough to support a long and active retirement lifestyle.

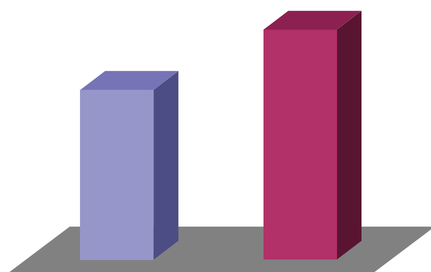
Plus, based on data provided by those who have already retired, boomers could be in for an uncomfortable adjustment when they finally leave the workplace.

For example, according to the Fidelity survey, 64 per cent of Canadian baby boomers expect to maintain their current lifestyle after retirement. An additional six per cent even expect to increase their standard of living at that time. However, the reality from those who have already retired is quite different. Just under half, 47 per cent, said they were able to maintain their previous lifestyle after they retired. An additional 42 per cent reported they had to downsize their standard of living after leaving work.

Boomers' dreams vs. retireds' reality

Already retired: Were able to maintain lifestyle: 47%

Boomers: Expect to maintain lifestyle at retirement: 64%

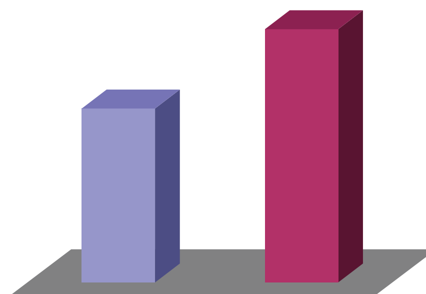


Compounding the problem is the reality that most baby boomers have not put aside enough to replace their current income at retirement. While most financial planners report that pensions and private savings should generate 70 to 80 per cent of after-tax income at retirement, most boomers are on track to replace only 55 per cent of their income, according to the Fidelity survey.

Boomers' dreams vs. retireds' reality

Boomers' average income replacement level: 55%

Required income replacement level: 80%

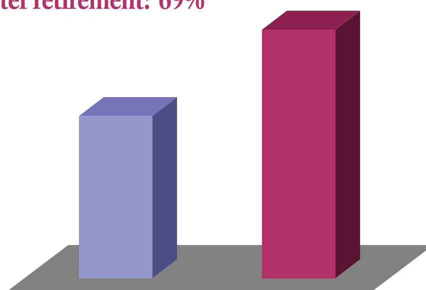


How a retirement income is spent after retirement is also import. While most people dream of more vacations and reduced housing expenses after retirement, the reality according to the Fidelity survey is the reverse. Its survey of existing retirees reports that 69 per cent of retirees spent the same or more on housing after they retired.

Boomers' dreams vs. retireds' reality

Boomers: Expect to spend less on housing after retirement: 45%

Already retired: Spent the same or more on housing after retirement: 69%



With the retirement of the baby boom generation now in its early stages, lifestyle issues will clearly be a priority for this group. What will happen when those issues collide with the realities reported by those who have already retired is anybody's guess. ❧

QPP in trouble

The Quebec Pension Plan is unsustainable over the long term, says Quebec's Minister of Employment and Social Solidarity Sam Hamad.

Using an actuarial report tabled in the Quebec National Assembly, the minister outlined that while the current combined employer-employee contribution rate of 9.9 per cent is enough to sustain the plan to 2050, its reserves will be exhausted by 2051.

If nothing is done, joint contribution levels will have to increase to 12.6 per cent after 2050.

To maintain the plan at a steady state, contributions should immediately increase to the 10.54 per cent level, according to the report.

Public consultations on the future of the plan must be held no later than 2010. ❧

Control of pension assets to be decided by Supreme Court

The debate over whether defined benefit pension plan assets can be used to fund employer contributions to defined contribution elements on hybrid pension plans will now be decided by the Supreme Court of Canada.

The Supreme Court decision to hear the case, known as the *Kerry decision,* follows an earlier Ontario Court of Appeal ruling allowing plan sponsors to take contribution holidays and use pension assets to pay plan administration expenses, provided a pension's plan documents and trust agreements allow it. (See the August 2007 edition of the *Coughlin Courier* for background.)

The case involves a defined benefit (DB) pension plan dating to the 1950s that was amended in the 1970s to allow plan expenses to be paid from the plan's surplus assets. In 1985, the employer began using the plan's surplus to take contribution holidays.

The pension was amended a second time in 2000 when a defined contribution (DC) element was added to the pension. After that, the employer began to take contribution holidays from that portion of the plan, again using the surplus earned from the older DB plan. Plan members objected, asserting that the employer's actions amounted to a breach of trust.

Reviews of the case by the Ontario Superintendent of Financial Institutions, the Ontario Divisional Court and the Ontario Court of Appeal resulted in mixed rulings. With a series of "split" judicial and regulatory decisions surrounding the case, it was almost inevitable that the Kerry decision would have to be decided by the country's highest court.

Whatever its decision, the Supreme Court ruling is expected to impact other disputes involving the control of pension plan assets, including the Hudson's Bay Company dispute with the pensioners of the former Simpson's Ltd. (see the December 2007 edition of the *Coughlin Courier* for background) and other high profile cases.

More information will be provided as it becomes available. ❧

CRA issues phased retirement guidelines

The Canada Revenue Agency (CRA) has issued an explanatory note outlining its eligibility requirements under the federal government's new phased retirement regulations.

Under its December 14, 2007 guidelines, employees can receive pension benefits from a *defined benefit pension plan* while continuing to accrue benefits provided:

- they are at least 60 years of age; or
- are at least 55 years of age and eligible for a full pension that is not reduced due to their age, years of service, or combination thereof.

Under the CRA rules, employers can offer up to 60 per cent of an employee's defined benefit pension, based on the amount of pension benefits that would be paid from the plan if the employee were fully retired. The amount includes any applicable bridge benefits.

According to the CRA, there is no requirement that the partial pension be based on a reduction of work time or salary. In addition, there are no restrictions on when or how often an employee's accrued pension benefits can be re-calculated to include his/her additional pensionable service or increased earnings.

Employers are not obligated to offer phased retirement benefits.

Phased benefits are not available to members of defined contribution pension plans or group registered retirement savings plans. ❧

Fast facts

- Almost one in five Canadian plan sponsors with defined benefit (DB) pension plans say they will close their plans within the next year, according to the Pension Investment Association of Canada. Ontario leads the way with 30 per cent saying they are either closing or planning to close their DB plans.

- A number of countries have enacted legislation to increase the qualification age to receive government-sponsored retirement benefits. Germany says it will increase its official retirement age from 65 to 67 between 2012 and 2029. Meanwhile, Austria will hike the retirement age for women to age 65 from age 60 between 2024 and 2033. As well, South Korea will increase the minimum retirement age for women to 65 from 60 within the next seven years.

- The Conference Board of Canada predicts that by 2030, Quebec will experience a labour shortage of 363,000 workers, or 8.5 per cent of its projected total workforce. The Ontario labour force deficit will amount to 562,000, or 6.2 per cent, while Alberta will be short 332,000 workers at that time.

- Eldercare has replaced daycare as the major employee assistance program issue, according to the Employee Assistance Programs Association of Toronto. Employee absenteeism resulting from the strain of caring for elderly parents costs employers at least $1 billion per year in lost productivity, depression and other health issues, the group says.

- The problem of rising medical costs isn't confined to North America. A Watson Wyatt survey of 85 insurers in five continents, including Africa and Asia, reports that 81 per cent of companies surveyed say that medical costs are now surpassing the inflation rate in their respective countries.

- An Investors Group study of 2,628 singles between the ages of 40 and 60 indicates that 28 per cent of those surveyed intend to work past the traditional retirement age range of 60 to 65. Of those planning late retirement, 54 per cent state they need the income and/or health benefits.

- The United Kingdom city of Coventry will no longer provide paid sick leave for employees who have elective "non-medical" surgery. The city's council says it is attempting to curb a sharp spike in sick leave requests for cosmetic and plastic surgery.

- Cuba is joining India and Mexico as a destination for medical holidays for those who either cannot afford some medical services or can't tolerate long waiting lists for surgery. Cuba's lower prices are a boon for Americans without health insurance, who often skirt the US embargo of Cuba by first visiting a third country such as Canada and then go on to the Caribbean country for medical treatment. Meanwhile, an increasing number of Canadians use Cuba to avoid the often year-long wait times for knee or joint surgery. A reminder: most employee benefit plans do not cover elective surgery in other countries.

- Who worries most about retirement: spenders or the savers? According to a MassMutual Financial Group study, 44 per cent of high savers, those who bank or defer eight or more per cent of their salaries, worry they won't have enough money at retirement, compared to 32 per cent of low savers. (Low savers are those who defer less than four per cent of their salaries for retirement.) Ironically, 44 per cent of high savers expressed confidence when making investment decisions compared to 54 per cent of low savers. ❧

PPN update

The Shoppers Drug Mart, formerly Greenbank Pharmacy, at 250 Greenbank Road in Ottawa, is no longer a member of the Coughlin & Associates Ltd. Preferred Provider Network. ❧

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