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AT A GLANCE ...

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Sub-prime crisis means pension losses, tighter oversight

The sub-prime mortgage debacle that has shaken capital markets throughout the world has prompted the Office of the Superintendent of Financial Institutions (OSFI) to conduct tighter surveillance on Canadian financial institutions.

The federal regulator announced that it will increase the number of officials who monitor financial institutions by a minimum of 10 per cent to *"enhance our ability to identify risks and their impact on financial institutions and pension plans."*

In an April 7, 2008 release, OSFI Superintendent Julie Dickson says the regulator will *"benchmark how banks manage liquidity risk, the rigour of their stress testing, the robustness of their valuation processes as well as their securitization activities."* She also said the agency will review the commercial real estate activities of Canadian life insurance companies.

"More recent events in the global financial system are requiring that OSFI direct more resources on enhanced identification of emerging risks and on monitoring institutional and market resilience to the turmoil," Ms. Dickson said.

OSFI regulates over 1,800 Canadian banks, insurers and federally regulated pension plans. Their combined assets exceed $3 trillion.

The sub-prime problem has been described as the second "perfect storm" to hit pension markets in the past five years.

Following the collapse of the high tech markets in 1999-2001, average funding ratios for pensions dropped from 139 per cent to 73 per cent as equity values declined, along with interest rates.

As stocks and other equities recovered strongly in 2005, funding ratios bounced back to the 89 per cent level by 2006. However, analysts now fear that the solvency problems in the financial markets have spurred rapid declines in equity values, sapping pension fund returns. With the solvency crisis igniting fears of a US recession, central banks in Canada and the US have reduced their prime interest rates, putting more downward pressure on pension funds.

According to Ryan Labs Asset Management, pension funding ratios slipped below the 80 per cent level at the end of February 2008, with further declines expected as the solvency problem spreads from the US mortgage market to other sectors of the world's economy. With the collapse of institutions such as Bear Stearns Investment Bank in the US and the Northern Rock Bank in the UK, market write-downs have amounted to at least $300 billion and could possibly reach as high as $1 trillion worldwide, according to some analysts.

The outlook for a quick recovery also looks doubtful. According to a joint Conference Board of Canada-Watson Wyatt survey, 68 per cent of senior executive officers of 168 Canadian organizations have expressed concern about volatility of pension funding.

It appears that pension solvency and plan investment will be a key issue in the coming months. ❧

Funding deficit issue turns very political, very quickly

The political ramifications of the pension funding issue became apparent this April when the Ontario Teachers' Pension Plan, the largest single-profession pension plan in Canada, reported that its plan liabilities exceeded its assets by $12.7 billion.

The plan, which covers 167,000 teachers and 104,000 retirees, has assets of $108 billion, including $50 billion in equities and $18 billion in fixed income holdings.

On hearing of the deficit, Ontario Education Minister Kathleen Wynne quickly blamed the plan's "85 rule", where members can retire on full pension when their combined age and years of service total 85.

"There are a lot of healthy retired teachers," she said, and questioned the long-term sustainability of the plan's retirement formula.

She later retracted her observations when challenged by union leaders and the province's opposition parties.

Later, the New Democratic Party also expressed concern about the pension plan, stating *"There's a $12.7 billion problem in the teacher's pension fund and, if that remains, people will have to work longer before they can retire or the government is going to have to raise the contribution amount both for themselves and teachers."*

The provincial government contributes $1.1 billion annually to the plan. ❧

39 suspended for smoking

Whirlpool Corporation has suspended 39 of its Evansville, Indiana workers for lying about their smoking habits.

The factory workers were suspended without pay when they were seen smoking or chewing tobacco on company property after they had signed declarations stating they did not use tobacco. Many could be fired for lying about their use of tobacco, the company says.

To encourage healthy living among its employees and reduce its extended health care costs, the company charges smokers up to $500 extra each year in group insurance premiums. Up to one-fifth of large American companies apply extra health insurance charges to their employees that use tobacco. Virtually all individual life and health insurance policies do the same.

Smoking cessation efforts can pay off for employers. According to a report published by the Conference Board of Canada, employers can save up to $3,396 per smoker in lost productivity, absenteeism and health costs by helping workers kick the tobacco habit. ❧

Drug trends on the rise, ESI says

Drug costs will rise by at least 7.1 per cent in 2008, according to a national survey conducted by ESI Canada, a major drug research firm and drug card provider.

Speaking at the organization's annual conference, ESI Director of Business Development John Herbert indicated that drug claims increased by an average of $44 per claimant in 2007 to $665, twice the level reported in 2000.

"While the ESI trend is 7.1 per cent, we anticipate carrier renewals to continue to be well into the double digits," Mr. Herbert said.

The ESI official attributed the rising trend factor to a greater number of claims being reported per claimant, an aging population and increased ingredient costs for pharmaceuticals. In addition, increased use of high-cost medications is also having an impact, he noted.

"There is an increase in the use of high-cost medications, which accounted for 13.3 per cent of the national drug spend in 2007, up from 11.8 per cent in 2006," Mr. Herbert said. "Biologics and specialty items, which are used to treat a very small portion of the population, make up one per cent of claims but account for 13.3 per cent of spending."

Mr. Herbert went on to warn that *"high-cost medications are growing at a rate of 20 per cent."*

Other trends reported by ESI include the following:

- High-cost claimants, those who spend $5,000 per year or more on drugs, account for 1.5 per cent of claimants and 23.7 per cent of drug care spending.
- Cardiovascular conditions, mental illnesses and diabetes influence more than 38 per cent of claimants and account for more than 76 per cent of drug spending.

The ESI director went on to urge greater use of corporate wellness and other programs and for plan sponsors to *"give some thought to managing the claimant as opposed to just the individual claims."* ❧

Colon cancer drug price dispute resolved

A two-year dispute between the Patent Medicine Prices Review Board and drug manufacturer Bristol-Myers Squibb Canada over the sale price of a major colon cancer treatment has finally been resolved.

Cetuximab, also known by the trade name Erbitux®, is expected to be available on the Canadian market later in 2008.

The controversy surrounding the drug began in 2005 when Bristol-Myers withdrew the medication from the Canadian market to protest the cost the federal price regulator wanted to fix for the medicine.

The Patent Medicine Prices Review Board generally bases Canadian drug prices on the median price charged for a medicine in the United States, Germany, Italy, Sweden, Switzerland, France and the United Kingdom. Bristol-Myers felt that the Board's proposed price was too low.

Cetuximab has proven to be very effective in the treatment of colon cancer and other advanced cases of localized cancers. In the US, the medication costs approximately $673 for a two milligram per two millilitre dose. Studies of Ontario patients receiving the medication in the US indicate that a nine-month treatment regime could cost over $200,000. The median cost of the drug among the seven benchmark countries used by the Board is $324 per dose.

Neither the Patent Medicine Prices Review Board nor Bristol-Myers released the final agreed price of the drug. However, the Cancer Advocacy Coalition of Canada estimates that a standard course of Cetuximab therapy will cost approximately $56,000.

The inclusion of the drug in provincial drug formularies will be settled on a province-by-province basis. Some Quebec hospitals already fund the drug on an exception basis.

Colorectal cancer claims the lives of 8,900 Canadians each year. ❧

New drug approval system draws critics

The federal government has announced changes to speed up the approval and entry of prescription drugs into the Canadian market.

Under the government's new progressive licensing system, prescription medications will be allowed onto the market before all existing safety tests are complete and clinical evidence fully reviewed.

The proposed new rules, which are designed to speed up today's cumbersome drug review process, will allow drug companies to introduce medications when they prove the benefits of a drug outweigh its potential harm. Under today's system, a drug has to be proven safe before it will be approved for public use. While that results in higher safety standards, it can also add years before a medication is introduced to the Canadian market, even when it has been approved and sold in the American or European markets.

While many agree that the current approval process is too slow, critics of the government's plan charge that it will turn the drug approval process over to pharmaceutical manufacturers and ultimately, lower safety standards.

For plan sponsors and administrators, the new approach will likely result in their having to track more medications as drugs are approved, withdrawn or adjusted based on their "real time" introduction to the market. ❧

Alberta to eliminate health care fees

The province of Alberta will eliminate premiums for its provincial health care plan, beginning January 1, 2009.

The premiums, which amount to $1,056 annually for the average family, were expected to be phased out over a four-year period. However, with provincial tax revenues buoyed by rising oil prices, the government had difficulty justifying the continued levying of premiums for health care coverage. While the premiums generated over $1 billion in revenues, the oil-rich province was still able to project a surplus of $1.6 billion following the elimination of the health care fees. ❧

Alberta courts skew medical privacy laws

The nation's privacy laws become more complicated this April as the Alberta Court of Queen's Bench ruled that the names of doctors and drugs they prescribe can be bought and sold.

The case involves the collection and ultimate selling of prescription drug data by IMS Health, the world's largest provider of market intelligence to the pharmaceutical and healthcare industries. The company collects medical and pharmaceutical data and sells the information to drug manufacturers to help them develop and market prescription drugs.

According to the Court, the collection of prescription drug information, including the names of the prescribing doctors and their patients, does not violate Alberta's privacy legislation since prescription data does not fall under that province's definition of *"health provider information."* As well, since data collected by IMS Health can be purchased by doctors to compare their prescribing patterns with other professionals, the company itself cannot be classed as a health care provider.

Most privacy legislation in the country allows personal data to be collected for research, archival and scholarly purposes. The data collected by IMS includes details such as patients' ages, sex and medical condition as well as their doctors' names.

While the collection and disclosure of the information by IMS Health was opposed by the Alberta Medical Association and the province's privacy commissioner, it is unclear whether either will appeal the court's decision. ❧

New Brunswick bails out nursing home pensions

The government of New Brunswick has rescued the pension plan of its private nursing home workers.

In a controversial move that has drawn criticism from the province's auditor general and the opposition Conservative Party, the province channelled $21.4 million in emergency funding to the pension that covers workers in its 60 private nursing homes.

According to Finance Minister Victor Boudreau, nursing homes throughout the province *"would have had to declare bankruptcy and close their doors or the nursing home administrators were going to have to collapse pension benefits for all their employees"* if they did not receive the pension top-up.

The New Brunswick Association of Nursing Homes endorsed the government bailout.

Specific details for the plan bailout were not disclosed.

The province has more than 4,000 nursing home residents. ❧

2008 provincial dental fee guide increases

Following are the average weighted fee increases for dental services by general practitioners, as provided by the various provincial dental associations. Amounts may vary by procedure code.

Dental fee guide increases 2008

British Columbia	3.24%
Alberta	6.89
Saskatchewan	6.50
Manitoba	3.86
Ontario	2.00
Quebec	3.20
New Brunswick	2.00
Nova Scotia	2.74
PEI	2.29
Newfoundland & Labrador	4.30

Yukon, Northwest Territories & Nunavut (to be announced later.) ❧

NEW – Guaranteed issue individual critical illness insurance

In March 2007, the *Coughlin Courier* featured an article entitled *"Critical illness insurance: Essential to RRSP planning."*

Since that article was published, we have received many enquiries from group members about critical illness insurance, asking how it can enhance their employer group insurance coverage.

While few group benefit plans include a critical illness insurance within their plan design, it is a benefit that should be considered.

Most employers and members feel that their long-term disability benefit will meet their needs. However, long-term disability insurance and critical illness insurance are two different products.

Even though survival rates are improving, living with a critical illness such as heart attack, stroke or cancer, can still be challenging, not only physically and emotionally, but also financially. During your recovery, you may end up having to pay for health care services, special drugs and supplements, and homecare expenses not covered by your government health insurance or your group insurance plans. You may even have to travel to get the medical attention you need. Add this to your regular household bills, and the financial consequences of surviving a serious illness could add up quickly. Your long-term disability benefit likely won't go that far.

Through its Individual Financial Services department, Coughlin & Associates Ltd. offers a critical illness insurance product that is underwritten on an individual basis. It is offered on a *guaranteed issue* basis, which means there are *no medical questions involved* when you apply for coverage.

The plan features the following:

- a $25,000 lump sum benefit payable to the insured to spend any way he/she pleases on the confirmed physician's diagnosis of one of the five most common critical illnesses and conditions – **cancer; heart attack; stroke; coronary bypass surgery; and aortic surgery;**
- it's available with or without a return of premium at expiry option. This option features a *full refund of all premiums paid – up to $25,000 – when you reach age 75 and no claim has been made;*
- comprehensive coverage up to the age of 75, regardless of your health;
- Best Doctors Solutions included at no additional cost;
- up to 50 per cent savings for non-smokers; and
- the *first month's premium free of charge!*

Although the odds of surviving a critical illness are better than ever, thanks to medical advances, consider these statistics*.

- Heart attacks strike 70,000 Canadians each year. Half of the people are under the age of 65. At least 80 per cent survive.
- Strokes hit 50,000 Canadians each year. One third of the victims are under the age of 65. At least 70 per cent survive.
- An estimated 2,865 Canadians are diagnosed with cancer every week – 75 per cent of men and 77 per cent of women who develop cancer survive.

**Heart and Stroke Foundation (2005), National Cancer Institute of Canada (2005), Canadian Cancer Statistics (2005)*

You can't predict the future, but you can be prepared for it. For more information, contact Coughlin's Individual Financial Services department at 613-231-2266, ext. 251, or email jmoulton@coughlin.ca .

Coughlin's new Ottawa home

In February, Coughlin's head office moved to a new and better location to serve you.
Visit our new Ottawa head office at:

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Fast facts

- The number of Canadians undergoing knee or hip replacement surgery has almost tripled in the past 10 years, the Canadian Institute for Health Information (CIHI) says. In total, 40,669 people had knee replacements in 2005-06 while 28,045 Canadians had hip replacement surgery. This compares to 16,862 and 17,302 respectively in 1995-96. One in seven people have to be re-admitted to hospital within a year after such surgery.

- The Ontario Court of Appeal has ruled that companies have to make payments into the provincial health care plan for workers assigned to out-of-country postings. The Court ruled that salaries paid to workers are subject to the province's Employer's Health Tax. Ironically, employees may not qualify for benefits if they are outside Canada for more than 212 days in any 365-day period, unless they prove their principal residence is within the province.

- Trustees for the US Social Security and Medicare plans warned in March that both social programs are on the verge of insolvency. According to their plan trustees, the Medicare trust fund, which pays for some hospital benefits, will be exhausted by 2019. The Social Security trust fund, which pays retirement benefits, will go broke in 2041, according to its annual report.

- The US Council for Disability Awareness reports that 56 per cent of Americans admit they have never discussed how they'll meet their expenses if they are ever disabled. Among workers age 21-35, a total of 68 per cent say they do not have enough income to meet their living expenses for more than three months. According to the Council, the average duration for a long-term disability in the US is two years.

- Only 18 per cent of Americans are confident that they'll have enough money to enjoy a comfortable retirement, a decrease of nine points from last year, according to the Employee Benefits Research Institute.

- According to the University of Hong Kong, the average working week in that city has dropped to 49.6 hours per week from 55.2 hours per week in 2004. The introduction of a five-day work week among civil servants accounted for most of the decline, researchers said.

- Retirement is depressing. Britain's Department of Work and Pensions, says that 50 per cent of British retirees reported being "unhappy" on their first day of retirement. The loss of social contacts and sense of challenge in the workplace along with the prospect of decades of time to fill, often result in feelings of anxiety and sadness, the department says.

- US employers are spending up to $45 billion annually in medical costs and lost productivity related to obesity, according to a report issued by that country's Conference Board.

- The Turkish government has passed legislation to increase that country's official retirement age to 65 by 2048. Currently, it is age 60 for men and 58 for women.

- The 10 most competitive countries in the developed world, based on 27 cost factors such as labour costs, taxes, utilities, real estate, currency value and social services:

    1. Mexico
    2. **Canada**
    3. United States
    4. Australia
    5. France
    6. United Kingdom
    7. Netherlands
    8. Italy
    9. Japan
    10. Germany

PPN update

Riverside Court Pharmacy has joined the Coughlin & Associates Ltd. Preferred Provider Network (PPN). Their address is: 3635 Rivergate Way, Ottawa. Telephone: 613-739-0950.

TownGate IDA Pharmacy has joined the Coughlin PPN. They are located at 2446 Bank Street, Units 114-115, in Ottawa. Their phone number is: 613-247-9893.

The Coughlin Courier is published by Coughlin & Associates Ltd.

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