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Ontario updates its Pensions Benefits Act

The Ontario government has passed Bill 236, updating its Pension Benefits Act (PBA). The amendments affect all pension plans registered in Ontario and are expected to significantly impact pension plan liabilities and administration, particularly when a plan member's employment is terminated.

Highlights of the amendments include the following:

Immediate vesting

Under the new arrangement, members will be vested immediately upon joining a pension plan instead of the previous requirement of 24 months of plan membership. In addition, benefits cannot be taken away upon termination. While employers may continue to require employees to work a minimum of two years before they qualify to join a pension plan, member benefits will be vested immediately upon plan enrolment.

Grow-in benefits

Effective July 1, 2012, all terminated members whose age plus years of service total 55 or more will be entitled to grow-in benefits (i.e. an early retirement supplement.) Currently, the grow-in benefits are only provided to members of defined benefit plans that are facing termination due to the full or partial wind-up of the plan. Under the new rules, members will be entitled to the extra benefits, regardless of circumstance. The only exception will be for those who are terminated for cause. As well, multi-employer and jointly sponsored pension plans can also elect to be exempt from offering grow-in benefits to their members.

Elimination of partial wind-ups

Partial wind-ups of pension plans will also be eliminated, as will the requirement to distribute plan surpluses following partial wind-ups.

Clarification of surplus sharing

Under the new rules, plan sponsors, employees and former members will be entitled to enter into an agreement to share plan surpluses on wind-up without having to first establish entitlement based on historical records or trust provisions.

Phased retirement

The new rules will allow defined benefit plans to offer phased retirement whereby members can continue to work and contribute to a pension plan while receiving pension benefits.

Small benefits

Members with pension assets that are considered too small to be paid out on a regular basis may withdraw the benefit as a lump sum.

Communications

The new rules impose various new requirements to expand communications. They include the following:

- expanded disclosure of documents held by plan sponsors and administrators, including documents that could prejudice a sponsor's economic interests. This could affect organizations experiencing financial stress or those either considering or in the process of merging with other organizations;

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Ontario updates its Pensions Benefits Act

- providing advance notice to plan members of all proposed amendments to a pension; and
- the establishment of pension plan oversight committees with membership that includes pensioners and plan members.

Solvency rules

Mirroring the recently revised federal pension regulations (see the June issue of the *Coughlin Courier* for details) Ontario's new regulations increase the minimum solvency ratio for contribution holidays to 1.05 from today's level of 1.0. In effect, plan sponsors will be restricted from taking contribution holidays until a plan's assets exceed its liabilities by a minimum of five per cent.

Plan solvency will be measured on a three-year average basis.

Impact on plan sponsors

The expanded requirements for communications and disclosure, liberalization of grow-in benefits and more robust vesting requirements are expected to substantially increase pension plan administration and record keeping.

Since the large plurality of pension plans in Canada are registered in Ontario, it is likely that many plan sponsors in Canada will be impacted by these changes. Even if they are not directly affected, other provincial jurisdictions may enact similar changes to Ontario's in order to make plan administration more efficient, particularly for plan sponsors with operations in several provinces.

For more information on Bill 236 and other pension issues, see the Financial Services Commission of Ontario website at www.fsco.gov.on.ca and click on *Pensions* in the upper left box. 

British Columbia curbs generic drug prices

The province of British Columbia joined Ontario this past July and reduced the price of its generic drugs.

Following an agreement with the British Columbia Pharmacy Association and the Canadian Association of Chain Drug Stores, the provincial government will shave the cost of generic drugs to 35 per cent of the price of their brand name equivalent over a three-year period. Today, generic drugs cost approximately 65 per cent of their brand name counterparts.

Like Ontario, the province intends to meet its cost cutting objective by reducing the rebates provided to pharmacies by generic drug manufacturers. However, unlike Ontario, British Columbia avoided the complete elimination of the rebates. In addition, the province intends to soften the blow to the 1,100 pharmacies affected by the pricing change by funding new pharmacy services such as medication management and other clinical services.

The new pricing regime is expected to save the province up to \$170 million per year with an additional \$210 million being saved in employee benefit and private health care coverage.

The new generic prices will be applied only to products covered by the BC PharmaCare program.

In addition to the new generic drug pricing strategy, the BC government also announced that effective July 28, 2010, minimum dispensing fees for drugs purchased under the

BC PharmaCare program will increase by 50 cents to \$9.10 per prescription. Further dispensing fee increases will be introduced as follows:

Date	New dispensing fee
October 15, 2010	\$9.60
July 4, 2011	\$10.00
April 2, 2012	\$10.50

Generic drug price reductions as a percentage of their brand name equivalent will be phased-in as follows:

Date	Existing generics	New generics*
Status quo	65%	50-70%
October 15, 2010	50%	42%
July 4, 2011	40%	40%
April 2, 2012	35%	35%

* Launched since November 2008

Currently, generic drugs account for \$286 million of British Columbia's \$900 million prescription drug budget. 

OSFI orders stress tests

Big life insurance companies will soon experience stress.

The Office of the Superintendent of Financial Institutions (OSFI) has ordered Canada's major life insurers to conduct stress tests to see if they have the financial stamina to withstand a major social disaster such as a deadly pandemic or a major stock market crash.

The tests are designed to see if the balance sheets of the companies are strong enough to support massively increased claims or a major economic shock.

OSFI has asked 20 leading insurers to submit to the tests. In the examination, the regulator has asked the insurers to develop mathematical models to track the potential financial impact of three different scenarios, one of which involves a major pandemic resulting in the deaths of several thousand people.

While conducting stress tests is not unusual in the financial industry, the current test has been "unusually

prescriptive about how this set of tests is to be done," according to sources quoted in the July 9, 2010 edition of the *Globe and Mail*.

The testing follows two turbulent years in the financial sector that were highlighted by the 2008 stock market crash, low interest rates, a debt crisis in Europe, the collapse of some prominent American financial institutions, changes in pension regulations and the possible introduction of new, more conservative, accounting rules. While Canada's banks and insurance companies have performed well throughout the period of uncertainty, investor confidence has waned from the pre-2008 period, leaving insurance companies more vulnerable to changes in equity markets.

Should an insurer fail a stress test, OSFI could force it to increase its capital reserves. Among other things, that could result in rate increases or more restrictive underwriting practices, both of which would have a direct impact on group benefits programs. ☛

RAMQ changes

Effective July 1, 2010, the maximum premium for Quebec employees and retirees insured by the Régie de l'assurance maladie du Québec (RAMQ) will increase to \$600 per year from \$585.

As well, the co-insurance for RAMQ drug coverage will remain at 68 per cent, unchanged from 2009.

The maximum annual contribution for private group plans was increased to \$963 annually from \$954. ☛



Generic drug cuts squeeze Quebec

Ontario and British Columbia's initiatives to reduce generic drug prices have left Quebec's government in a difficult spot politically.

According to Quebec Health Minister Yves Bolduc, that province's regulations require it to have the lowest generic drug prices in Canada. With Ontario cutting its generic drug prices to 25 per cent of their brand name equivalent and British Columbia to 35 per cent, Quebec may be left with little choice but to match or better Ontario's price reductions.

The prospect of following Ontario's lead has left Quebec drug manufacturers and pharmacists fuming.

Calling the move "draconian", the Quebec wing of the Canadian Generic Drug Association (CGDAQ) has warned that generic drug manufacturers would reconsider their investment plans if the province introduces a pricing program similar to that adopted by Ontario.

"We would expect there would be a re-assessment of investment projects," says Yves Dupre, head of the CGDAQ.

The Quebec association has already warned that Ontario's generic drug pricing reforms have resulted in job losses in Quebec's pharmaceutical industry. Meanwhile, the spokesperson for the Quebec Ministry of Health has reiterated that the province has a legal obligation to proceed with the generic drug price reductions.

Mr. Bolduc is expected to meet with industry representatives later this autumn to discuss details of the pending price reductions. ☛

Insurers and governments fight changes to accounting rules

The federal Ministry of Finance and the Office of the Superintendent of Financial Institutions are backing efforts of Canada's major life insurers to challenge new accounting rules proposed by the International Accounting Standings Board (IASB.)

In an effort to standardize accounting standards throughout the world, the IASB is proposing to "de-link" asset and liability reporting by insurers so that interest rates earned by long-term investments, such as life annuities, whole life insurance and similar products, reflect current interest rates and values, rather than their expected rates of return over the long term.

At present, Canadian life insurers can take credit now for the investment performance they hope to achieve in the future, thereby linking an investment's liabilities with its projected earnings over the course of its contract. The IASB, which sets the world's accounting standards, maintains that linking assets and liabilities does not give a true picture of an insurer's financial position or performance. The Canadian Accounting Standards Board, the body that governs Canada's accounting practices, has endorsed the IASB position.

However, prominent Canadian insurers including Sun Life, Manulife, Industrial Alliance and others maintain that the proposed accounting rule changes would penalize Canada's life insurers for selling more long-term products than their European counterparts.

According to Canada's life insurers, the de-linking of projected investment returns and liabilities

will add considerable volatility to interest rate assumptions. Ultimately, that volatility will make it difficult for them to price and offer long-term products such as life annuities and non-participating whole life insurance.

Under current rules, if a Canadian insurer underwrites a 30-year annuity, it is able to match that liability with a similar term bond, usually issued by a provincial government or the federal government. Separating the annuity's assets from its liabilities would make it difficult for an insurer to calculate its long-term commitments and force it to use difficult interest rate assumptions — which could be detrimental to the policyholder.

The proposed changes would also make it less attractive for insurers to buy long-term bonds, insurance leaders say. In turn, that could result in either reduced availability of annuity, whole life and other long-term products or substantially increased prices for them.

"It has an impact not just on our results but also on Canadian citizens," says Industrial Alliance Chief Executive Officer Yvon Charest. "Under the potential IASB rule, the impact on our interest rate assumptions would make our net income about seven times more volatile. It would be difficult to maintain long-term products."

The IASB counters that its new rules will force insurers to accurately reflect the risks — and costs — associated with long-term insurance and retirement income products. If using "real" costs and returns makes these products too expensive, then insurers should not be offering them on a large scale, it argues.

According to the Canadian Life and Health Insurance Association (CLHIA), Canada's life insurers purchase approximately 14 per cent of all government and corporate bonds. The prospect of the disappearance the \$150 billion of purchasing power of insurers from the long-term bond market has not gone unnoticed by Finance Minister Jim Flaherty or the Office of the Superintendent of Financial Institutions. Both have called on the IASB to consider the negative impact the new rules could have on Canadian insurers.

Calling the proposed accounting changes "*fundamentally flawed*", the CLHIA has urged the IASB to take more time to consider the issue and delay the release of its new rules.

"We are not suggesting that the new standard be equal to the existing Canadian standard, but instead, that the concepts that are the strength of the Canadian model be considered," the industry organization says.

While the proposed accounting rule changes may appear to be an academic argument between international accountants, insurers and governments, they could have a meaningful impact on Canadian plan sponsors and plan members. For plan sponsors, the de-linking could make investments such as long-term government bonds less attractive and the reporting of their projected returns more cumbersome. For plan members, the reduction of the availability of life annuities or whole life insurance could seriously impede their retirement income options or permanent life insurance protection.

More information on the IASB proposals will be provided as it becomes available. 📌

Canadians spending more on dental care, StatsCan says

Canadians spent more than \$12 billion on dental care in 2009, according to Statistics Canada's most comprehensive survey of dental services since 1972.

According to the Canadian Health Measures Survey of 6,000 people in 15 communities taken from March 2007 to February 2009, dental care costs have risen faster than other common health conditions such as mental health or cardiovascular disease. On average, Canadians spent \$360 per person on professional dental care in 2009, 55 per cent of which was covered by private dental insurance plans including group benefits coverage. Only six per cent of the country's total dental bill was covered by government medical plans.

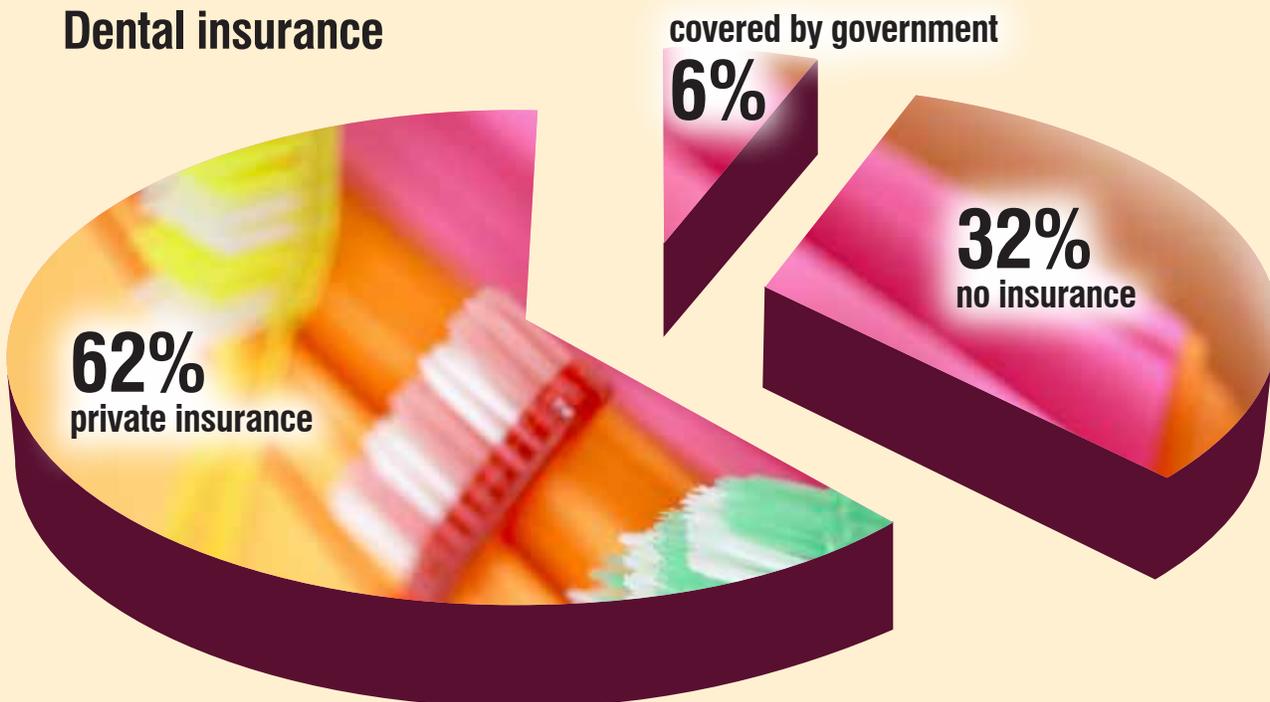
According to the Statistics Canada survey, 62 per cent of the population have private dental insurance while six per cent are covered by government plans. Almost one-third of the

population, 32 per cent, have no dental insurance coverage.

Other facts about the nation's dental health include the following:

- 75 per cent of Canadians visited their dentist in the previous 12 months. This compares to 50 per cent in 1972.
- 85 per cent of high income earners visit their dentist regularly compared to 58 per cent of low income earners.
- 36 per cent of those with no dental coverage avoid visiting their dentists due to costs. This compares to nine per cent of those with private dental insurance coverage.
- More than 4.1 million working days are lost each year due to dental visits or illnesses attributed to dental problems.
- Only 25 per cent of children age six to 11 years old experience dental decay on permanent teeth. In 1972, that rate was 74 per cent.
- The proportion of adults without teeth has shrunk from a level of 24 per cent in 1972 to six per cent today.
- 17 per cent of adults have dentures or bridges.
- Almost half of all smokers — 49 per cent — require some form of dental treatment. Only 30 per cent of those who have never smoked are in the same position.
- 73 per cent of Canadians brush twice or more per day while 28 per cent floss five or more times per week. 

Dental insurance



Canadians choose early retirement

While the Freedom 55 dream of early retirement may be just a dream for most people, Canadians continue to retire at earlier ages, according to data released by Statistics Canada.

The government statistics agency's *2009 Labour Force Survey* indicates that age 62 is the preferred retirement age of Canada's work force, a marked decline from the 1970s and 1980s.

Why people retire

Health — not finances — appears to be the primary driver of early retirement decisions, the study suggests.

According to Statistics Canada, 35 per cent of those who had a negative perception of their health stopped working before their normal retirement date. An additional 24 per cent of those who were diagnosed with three or more chronic medical conditions opted to leave the workforce ahead of time.

Other retirement data from the *2009 Labour Force Survey* includes the following:

- Those with eye problems, back pain, ulcers and migraines were more like to select early retirement.
- Heavy drinkers (those who consume five or more alcoholic beverages on one occasion at least once per month) are almost twice as likely to retire early.
- Obese workers are 1.6 times more likely to retire early than those who are not obese.

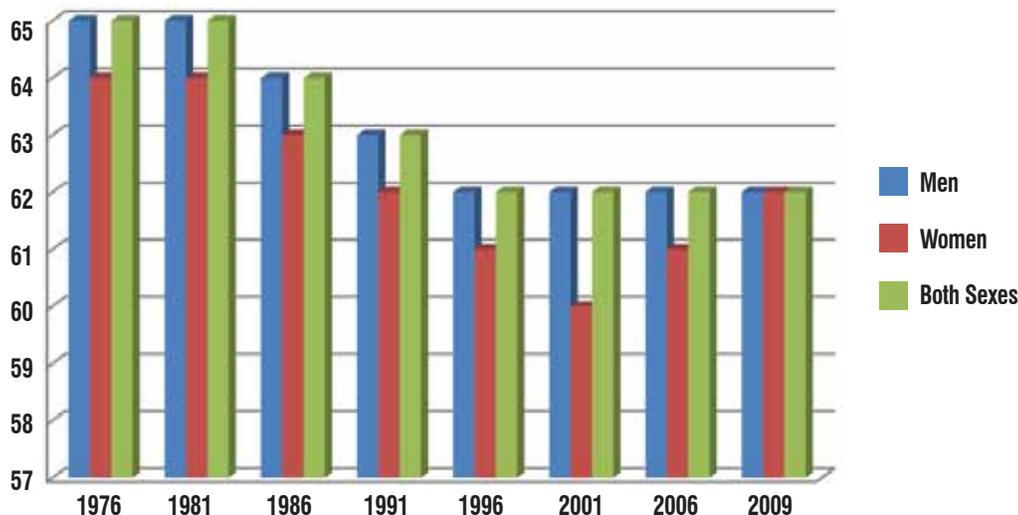
- Those who smoked on a daily basis are 1.7 times more likely to retire early. Ironically, heavier smokers, those who smoke 30 or more cigarettes per day, are more likely to retire early than light smokers or non-smokers.
- Women in high stress jobs are twice as likely to leave the workforce as those in low stress jobs.
- While men are more likely to remain in high stress situations, they tend to need require more support from supervisors. According to the StatsCan findings, men that had low support from their supervisors were twice as likely to retire early than those who felt they had adequate supervision.
- Workers with low job satisfaction were 62 per cent more likely to retire before age 65 than those who were satisfied with their job.

Not bad news

The predictions of labour shortages and the recent liberalization of pension laws to encourage employment after age 65 suggest that there may be a social benefit derived from encouraging individuals to delay their retirement. However, for plan sponsors responsible for paying costly drug and medical benefits, the StatsCan study suggests the opposite: it may be more cost effective to *encourage* early retirement.

When considering the underwriting and risk profiles of early retirees, does it make sense to *discourage* early retirement? The *2009 Labour Force Survey* would suggest not. 🇨🇦

Average age at retirement



Cardiovascular risk factors jump 260 per cent among young adults

Risk factors for cardiovascular disease among people aged 12 to 34 increased by 260 per cent from 1995 to 2005, according to the *Canadian Medical Association Journal*.

In the first of a series of studies on the health of young people, the Association projects that thousands of young people will suffer from heart attacks, strokes and premature death if risk factors such as obesity, high blood pressure and diabetes continue at present rates. That will result in ballooning heart care costs.

"The concern is that if we see cardiovascular risk factors continue to rise like this, life expectancy may actually shrink," says cardiologist Dr. Douglas Lee of the University Health Network and Institute for Clinical Evaluative Sciences of Toronto.

Poor diet, lack of exercise and excessive levels of sodium consumption among children are major contributors to the problem, the study notes. The problem

seems even more acute among low income earners, the report says.

While hypertension led the way, other risk factors also rose at a double digit pace among young adults. For example, diabetes rates increased by 63 per cent among women and 78 per cent among men during the 1994 to 2004 period. Obesity levels rose by 40 per cent among young men but actually declined marginally among women in that age group. These trends occurred despite the fact that the percentage of smokers in that group had declined by almost one-third during that time.

Perhaps more worrisome is the fact that many in the 12 to 34 age group are not even aware of the additional risk factors.

"Major portions of the population haven't had their blood pressure checked, which could mean that the problem is actually under-reported," Dr. Lee says. *"It could be a much larger problem than we reported."*

Compounding the problem is the fact that risk factors among the age 50 to 64 segment of the population, those of the baby boom generation, also experienced a sharp increase from 1994 to 2004. Hypertension rates among that age segment jumped by 61 per cent, the study says. While some of that increase may be age related, lack of exercise and poor nutrition may also be major contributors to the increased incidence levels among that group.

"These are really society changes that we have to face together," says Ontario Heart and Stroke Foundation Director Dr. Marco Di Buono. *"This is a storm on the horizon that we're going to have to face head on."*

For plan sponsors, the Canadian Medical Association study presents some ominous news. If the study's findings prove to be correct, medical and drug plans should expect substantially increased claims as both young adults and aging baby boomers report heart attacks, strokes, high blood pressure, diabetes and other serious medical conditions. 📌

PPN update

The following pharmacies have joined Coughlin & Associates Ltd.'s Preferred Provider Network (PPN).

Main Street Pharmacy, located at 155 Main Street, Thessalon, Ontario. Phone: 705-842-2322.

Greenbank Pharmacy, of 139 Greenbank Road, Nepean, Ontario. Its phone number is: 613-680-2497.

Seaway Pharmacy, 21 Main Street North, Chesterville, Ontario. Call: 613-448-2492.

Sobey's Pharmacy, located at 9580 McCowan Road, Markham, Ontario. Phone: 905-887-2446.

Price Chopper Pharmacy, of 260 Queen Street North, Tottenham, Ontario. Its phone number is: 905-936-1189.

Price Chopper Pharmacy at 2560 Lawrence Avenue East, Scarborough, Ontario. Call: 416-755-4184.

Price Chopper Pharmacy, 2490 Gerrard Street East, Toronto, Ontario. Phone: 416-698-2060.

Price Chopper Pharmacy, located at 50 Market Street South, Brantford, Ontario. Phone 519-759-6997.

Aikenhead's Drug Store, of 226 Raglan Street South, Renfrew, Ontario. Its phone number is: 613-432-8866.

The following pharmacies are no longer members of the Coughlin PPN.

Manotick Clinic Rexall Pharmacy, of 5492-C South River Drive, Manotick, Ontario.

Victoria Pharmacy, 1059 Wellington Street, Ottawa, Ontario.

Rexall Pharmacy located at 102-2555 St. Joseph Blvd, Orleans, Ontario.

Rexall Pharmacy, 62 Robertson Road, Nepean, Ontario.

Westboro Pharmacy, of 421 Richmond Road, Ottawa. 📌

Fast facts

- The Canada Pension Plan reserve fund was ranked the second highest performer among the members of the Organization for Economic Co-operation and Development (OECD). Covering the boom-bust years from 2005 to 2009, the OECD study set the CPP's investment returns at 3.8 per cent after inflation. That return was beat only by Poland, which recorded a 4.0 per cent performance over that period. Ireland, which recorded a loss of 0.6 per cent, and New Zealand, at -0.1 per cent, trailed the OECD pension investment performance rankings.
- Torontonians will soon be able to contribute to the CPP's performance every day. The Canada Pension Plan Investment Board has made a \$3.2 billion offer to buy a 32 per cent stake in Highway 407, the express toll highway circling the north side of Toronto from Burlington to Pickering.
- One in five Canadians are expected to develop arthritis by 2031, the Public Health Agency of Canada says. Four million people, or 13 per cent of the population, were reported as having some form of the disease in 2007. Sixty per cent were under age 65. Arthritis treatment and medications accounted for \$7.7 billion in public health spending in 2008, the Agency says.
- The Ontario Municipal Employees Retirement System (OMERS) says it will increase contribution levels for plan members and plan sponsors by one per cent in 2011 and 2012 and by 0.9 per cent in 2013. The increases are designed to offset the pension plan's \$1.5 billion deficit.
- Life expectancy facts:
 - Life expectancy at birth of Canadian males born in 1931: 60.
 - Number of years available for retirement at age 65: -5.
 - Life expectancy at birth of Canadian males born in 1961: 68.
 - Number of years available for retirement at age 65: 3
 - Life expectancy at birth of Canadian males born in 2005: 78.
 - Number of years available for retirement at age 65: 13
- Percentage of small business owners age 45 or older that plan to retire within the next 10 years, according to a survey conducted by the BMO Retirement Institute: 50.
- Percentage with a formal succession plan: 19.
- Percentage planning to close their business at retirement: 40.
- Percentage of individuals age 80 or older receiving an annuity or pension income in 1975, according to the Employee Benefits Research Institute: 17.7.
- Percentage receiving an annuity or pension income in 2008: 37.3.
- This spring's sovereign debt crises and volatile equity markets have taken their toll on pension plans. The Mercer Pension Health Index of assets to liabilities declined by seven per cent from the first quarter of 2010 to 67 per cent, meaning that, on average, only 67 cents were available for every \$1 of pension liabilities. 🌱

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