COUGHLIN COURIER

APRIL, 2004

Depression accounts for mounting STD and LTD claims

Depression continues to take a serious toll on Canadian productivity, according to the Business and Economic Roundtable on Mental Health.

According to the Toronto-based organization, depression accounted for over $8 billion in lost productivity last year and is a leading cause of both short and long-term disability.

Depression now accounts for 11.6 per cent of all short-term disability (STD) claims and 16.6 per cent of all long-term disability (LTD) claims, according to the Roundtable's data. While the STD claim level has improved somewhat from the 12.3 per cent of all claims reported in 2002, LTD trends show a significant rise in depression claims. Only 11.8 per cent of claims involved depression in 1997 while, in 2000, 14.0 per cent involved that illness. At that rate of growth, depression could quickly become the leading cause of long-term disability claims.

The Roundtable's data is backed by the World Health Organization, which predicts that depression will become the most prevalent non-physical disability and the greatest source of lost time and early death in the developed world within the next two decades.

Increased workplace stress, including longer working hours and less employment security, plus the upsetting of work-life balance, are considered major causes of the rising rate of the mental illness.

The Roundtable recommends increased use of employee assistance plans (EAPs) and more open communication between disabled employees and employers to address the problem. Some other recommendations include:

- briefing senior corporate managers on the impact of mental illness on absenteeism and costs;
- establishing policies to support the early detection of depression among employees;
- making business and employee health dual priorities;
- creating disability and return-to-work strategies to handle mental illness;

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Federal budget condemned for restricting pension investments

One of Canada's largest pension plans has condemned a federal budget proposal to limit pension investments in income trusts.

The Ontario Teachers Pension Plan Board, Canada's second largest pension fund, calls the restriction both unnecessary and discriminatory, alleging that the federal proposal "*discriminates against the 250,000 teachers and the millions of Canadian workers whose retirement income is managed by pension plans.*"

The March 23 federal budget proposes capping pension fund investments in income trusts to no more than one per cent of fund assets and five per cent of total trust units.

According to Finance Minister Ralph Goodale, the growing investment by pension plans in the tax-exempt funds "*could have a significant impact on the market and government revenues.*"

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Federal budget condemned for restricting pension investments

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Concern has also been expressed that too much exposure to the trusts could leave pension plans vulnerable to market corrections, opening to door to a repeat of the pension crises of 2001 and 2002 when many plans saw their asset values shrink following the collapse of the high-tech bubble in 2000.

However, the Teachers plan counters that restricting the ability of pension plans to invest in income trusts would "*exclude Canadian pension plans from benefitting from the growth and stable cash flows income trusts are expected to provide.*"

Income trusts now account for over $90 billion, or just under seven per cent in Canadian market capitalization. They provided the Teachers plan with almost $800 million in investment income last year alone, mostly from capital gains. The giant pension fund has invested over $1 billion in income trusts in the past two years.

If passed, the federal restrictions would apply only to Canadian pension funds. They would not apply to registered retirement savings plans, foreign pension plans, mutual funds or investment funds.

For plan sponsors that manage trusteed pension plans, the federal proposal could require them to direct their fund managers to assess their funds' exposure to income trusts and, possibly, liquidate and re-invest any excess holdings they may have in such plans. ■

Depression accounts for growing STD and LTD claims

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- implementing business policies to encourage work-life balance;
- identifying and reducing emotional hazards in the workplace;
- eliminating unnecessary stress in the workplace;
- differentiating between performance problems stemming from mental illness and those attributable to an actual deterioration in work; and
- educating managers and supervisors on the health effects of depression.

Coughlin & Associates Ltd. can help your organization find EAP providers and establish managed care policies to address this growing issue. Contact your Coughlin & Associates Ltd. consultant for more information. ■

Good governance makes for good performance, study says

A study released by Georgia State University indicates that companies with higher corporate governance standards have better profitably, higher stock prices, stronger dividends and lower risks than their counterparts.

A survey of 5,460 US companies found that stock returns of companies with strong governance ratings were 11.9 per cent higher over a five-year study period compared to those with low ratings. Similar results were tracked for long-term profitability and return on equity.

The study covered 61 governance variables in eight categories including details such as the composition of boards of directors, compensation practices and share ownership rules. While no single element was sited as the most important consideration in governance, board composition appeared to have the highest correlation with superior performance over the long term, according to the university's research.

The Georgia State study seemed to be confirmed by a separate study by Lipper Inc., a provider of information on mutual funds. Using corporate governance scores calculated by Governance Metrics International, an independent governance ratings agency, the Lipper Inc. study of 725 large capitalization US mutual funds suggested that over three and five-year periods, portfolios that were heavily weighted with companies with above-average corporate governance scores consistently out-performed those featuring companies with lower governance standards.

The message for plan sponsors seems clear. When considering a fund or an investment manager's performance, take a moment to review its governance practices. Chances are, the more robust the governance standards, the stronger and more reliable will be the investment performance over the long term. ■

PENSION NEWS

OK to use multiple RRSPs to pay overcontributions, court says

The Tax Court of Canada has ruled that withdrawals to cover registered retirement savings plan (RRSP) overcontributions can be made from more than one registered plan.

The ruling follows the case of a Toronto woman who contributed $10,000 to a bank RRSP, exceeding her contribution limit by over $8,500. When she later withdrew funds to correct the overpayment, she withdrew approximately $5,000 from one RRSP plan and $3,500 from a second plan, noting that it was more cost effective for her to make two smaller withdrawals from two plans rather than one large withdrawal from a single plan.

The federal Ministry of National Revenue opposed the action stating that the withdrawal from the second plan did not directly relate to her initial overcontribution. The Ministry used a 1976 version of Section 146(8.2) of the Income Tax Act which required withdrawals for overcontributions be made from the same plan. Section 146(8.2) has since been updated and no longer contains that restriction.

In its review of the case, the Tax Court could not find any reason why a withdrawal should be made from the same RRSP as that from which the overcontribution was made.

In his February 12, 2004 ruling, Justice J.M. Woods stressed that "*As long as the taxpayer can establish that the withdrawal is intended to minimize adverse tax consequences from an overcontribution to another plan, the withdrawal (from the second plan) can reasonably be considered to be in respect of the overcontribution.*" ■

BC updates its Pension Benefits Standards Act

The government of British Columbia is liberalizing its Pension Benefits Standards Act.

Amendments introduced on March 26, 2004 will put the province's pension regulations more in-step with those of other Canadian jurisdictions. Some of the proposed changes include:

- removal of the requirement that owners of a life income fund (LIF) convert their holdings to an annuity by age 80;
- upgrading the annual maximum withdrawal limit on LIF funds;
- adjusting the small benefits threshold, the point where individuals may access locked-in pension money since the funds are too small to provide a meaningful retirement income, to $8,100; and
- allowing BC pensions to provide more flexible LIF-style pension payments.

More information on the province's pension legislation can be found at: www.fic.gov.bc.ca/pensions/ ■

CPP deduction rules simplified

The federal government plans to amend Canada Pension Plan (CPP) regulations to allow employer contributions to be considered continuous when corporate structures are changed.

Under current regulations, employers are required to re-contribute to the CPP on behalf of employees when companies are wound-up or re-constituted, regardless of whether individual employees have reached the yearly maximum pensionable earnings (YMPE) limit (currently $40,500.) The result is that employers have to make and report overcontributions to the CPP for that year, even following relatively minor corporate changes such as turning a firm from a partnership into a corporation. Such changes require the "previous employer" to withhold contributions and the "new" employer, the newly restructured company, to make new contributions on the member's behalf, despite the fact that there may have been no interruption of service by the employee.

Under the new regulations, contributions will be considered continuous when the CPP deduction source remains unchanged.

If passed, the reforms will be effective retroactive to March 18, 2003.

Quebec has already proposed similar changes to the Quebec Pension Plan (QPP.) ■

Workforce stats show a touch of grey

Call it the revenge of the baby boomers.

More than 669,000 jobs were created in Canada in 2002 and 2003 and older workers, those aged 55 or older, grabbed 53 per cent of them.

The sudden surge in older workers reflects the long-predicted trend that baby boomers, those born between 1946 and 1964, would change work-life patterns on reaching retirement. With the leading edge of the boom now age 58, it appears many are either changing jobs, remaining at work or returning to work following retirement.

The impact of the boomers is already showing up in labour reports. According to reports published in the March 8, 2004 edition of *The Globe & Mail*, the 55+ workforce totalled only 11 per cent of all workers in of 2001. From an annual growth rate of 142,000 in 2001, the growth in the number of older workers jumped to an average of 219,000 per year in 2002, a 54 per cent hike in one year. And the trend is continuing.

According to Statistics Canada, the trend toward earlier retirement is now reversing. From a median age of 61 in 1999, it is now edging upwards as more boomers remain in the workforce and demand the removal of mandatory retirement.

For plan sponsors, this data indicates that the inevitable is now here. The first wave of a flood of older workers has touched the workplace. Expect to see the greying of the workforce -- and the unavoidable impact older individuals will have on extended health care claims, pensions and work patterns. ■

Call it Freedom 95

The Ontario government plans to introduce legislation ending mandatory retirement at age 65.

The proposed law is designed to end perceived discrimination against older workers who may be both willing and able to work beyond mandatory age limits such as 65. Many union and employment contracts require workers to retire at a set age.

The concept has received the endorsement of seniors groups, labour lawyers and human rights advocates. Even Prime Minister Paul Martin, who turned 65 last August, has endorsed the scrapping of mandatory retirement.

How the new legislation will apply to occupations with minimum physical or mental requirements is still to be determined. However, with a pending labour shortage from the predicted mass retirement of baby boomers, governments and plan sponsors are expected to liberalize retirement and benefits programs to retain skilled workers who would otherwise retire or change jobs.

Ultimately, ending mandatory retirement could require the re-designing of group benefits programs, many of which terminate coverage at age 65. Some pension plans may also have to be re-designed to accommodate later retirements. ■

Downsizing can kill, study says

Downsizing is bad for the heart.

A Finnish study of over 12,000 workers who *survived* downsizing in their workplaces indicated that deaths by heart disease more than *doubled* during the five years following the layoff period. The death rate was 5.1 times above normal in the 30 months immediately following downsizing and reduced to 1.4 times normal in the succeeding 30 months.

The results, which were published in the *British Medical Journal*, also found that those in the low-risk population for death from heart disease (primarily young, female and in good health) were more likely to be retained by employers during downsizing. The report calls for employers and policy makers to recognize that "*downsizing may pose a severe risk to health.*" ■

www.coughlin.ca

Protecting your personal information The administrator of your group benefits plan is Coughlin & Associates Ltd. At Coughlin, we recognize and respect every individual's right to privacy. When personal information is provided to us, we establish a confidential file that is kept in the offices of Coughlin, or the offices of an organization authorized by Coughlin. We use the information to administer the group benefits plan. We limit access to information in your file to Coughlin staff or persons authorized by Coughlin who require it to perform their duties, to persons to whom you have granted access, and to persons authorized by law.

28,000 BC residents receive drug plan reimbursement

Over 28,000 British Columbia residents will receive reimbursements from the BC Fair PharmaCare program.

The refunds, which average $125 each, cover amounts that late registrants paid in excess of their Fair PharmaCare deductible last year. BC residents had until May 1, 2003 to register for the province's reformed drug care plan. Late registrants were automatically assigned the highest deductible of $10,000.

The province is advising cheque recipients that "*If your private insurer paid for all or any of your prescription costs, you must advise your private insurer of the amount of your retroactive payment.*"

While Coughlin & Associates Ltd. does not have a record of those who received the drug plan reimbursement from the province, members who have received both the reimbursement and payment from their group insurance plan are urged to notify their plan administrator so that coverages can be credited appropriately.

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FAST FACTS

The province of Ontario has announced that it will revise its Employment Standards Act to provide up to eight weeks of job-protected compassionate leave for workers to care for seriously ill family members. The province joins Quebec, Nova Scotia, Manitoba, Prince Edward Island, New Brunswick, Nunavut and Yukon, which have already amended their labor codes to accommodate federal compassionate care legislation. ■

Ontario Human Rights Commissioner Keith Norton reports that "*a full 75 per cent of all complaints received are in the areas of employment.*" Most claims involve discrimination involving race or disability, he told an audience of human resources professionals. Employers can be held liable for discrimination or harassment in their workplace. ■

Average Canadian life expectancy, according to Statistics Canada: **78.3 years**. Average disability-free life expectancy: **68.6 years**. **Number of years the average Canadian can count on being disabled: 9.7 years.** ■

Corporate profits in Canada totalled $172.2 billion in 2002, Statistics Canada reports, an increase of one per cent from 2001 but still well below the $192 billion of 2000. ■

The federal Department of Finance says it will limit the period for the collection of federal tax debts to10 years. For the average taxpayer, the new ruling means that they will be able to file appeals or adjustments of previous tax returns going back 10 years. If passed, the 10-year rule will be incorporated into the Income Tax Act retroactively to March 4, 2004. ■

Registered marijuana users will shortly be able to buy supplies of the drug through pharmacies. Health Canada will allow the sale of 30-gram bags of dried marijuana buds to registered users who need the drug for the treatment of diagnosed medical conditions. The program will be tested in British Columbia first before being launched on a national level. ■

The province of Nova Scotia has increased the annual income level for total exemption under its Seniors Pharmacare program to $18,000 for singles from $17,000. The exemption level for married seniors is a combined income of $21,000. Annual premiums for participating seniors with incomes above the exemption levels will increase from $336 per year to $390. Co-payments remain capped at 33 per cent to a maximum $30 per prescription and $350 per year. ■

The province of Quebec has joined Ontario and British Columbia in legalizing same-sex marriages. In a March 19, 2004 ruling, the Quebec Court of Appeal upheld a lower court ruling that the traditional definition of marriage is discriminatory. The Supreme Court of Canada has been asked to clarify the constitutionality of same-sex marriages and is expected to provide the federal government with guidance on the issue by autumn, 2004. ■

The Financial Services Commission of Ontario will increase its Annual Information Return (AIR) fees for pension plans. The minimum filing fee will increase from $200 to $250, while the maximum AIR fee will increase from $50,000 to $75,000. The fee per active member remains unchanged at $6.15. However, a separate fee of $4.25 per person for the registration of former members and plan beneficiaries has been added. The new fees become effective June 30, 2004 for defined benefit plans with AIR filing deadlines on or after that date. The fee structure will be applied to all other plans with filing dates on or after September 30, 2004. ■

Motor vehicle accidents account for 47 per cent of all major injuries, the Canadian Institute for Health Information reports. ■