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AT A GLANCE ...

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Finance ministers accept new pooled registered pension plan

Canada's finance ministers surprised pension experts in December when they agreed to accept a federal government proposal to introduce a voluntary defined contribution pension plan for all Canadian workers.

Introduced by federal Finance Minister Jim Flaherty at the December 15, 2010 national finance ministers' meeting in Kananaskis, Alberta, the new Pooled Registered Pension Plan (PRPP) will allow all workers, including self-employed individuals and those working for companies that do not offer pension plans, to contribute to a national defined contribution plan that would be administered by federally regulated financial institutions, such as banks and insurance companies.

In a nine-page brief to his provincial and territorial counterparts, Mr. Flaherty suggested that the new pension scheme would *"improve the range of retirement savings options available to Canadians as well as provide low-cost retirement options allowing participation by employees, with or without a participating employer."*

The new plan is designed to encourage retirement savings, particularly among the self-employed and those employed by small businesses and organizations.

Under the new plan, all employers would be compelled to offer the PRPP. However, the plan itself would be administered by a third party organization such as a bank. In this sense, the PRPP would function similar to a multi-employer pension plan. Employees could contribute to the plan but would have the right to opt out of it. Meanwhile, employers would be freed from the administrative complexity and costs associated with running a pension plan.

The PRPP proposal surprised the provincial ministers as well as industry and labour groups, most of which expected federal pension reforms to focus on the enhancement of the Canada Pension Plan (CPP).

However, changing the CPP would require the agreement of two-thirds of the provinces representing two-thirds of the Canadian population. Provincial proposals for CPP reform included Ontario's concept of increasing CPP joint employer-employee contribution levels to 12.1 per cent of the yearly maximum pensionable earnings (YMPE) from today's level of 9.9 per cent, and an increase of the YMPE to $70,000 from the 2011 level of $48,200. (See the December edition of the *Coughlin Courier* for details.) Ontario's proposal contrasted with a joint British Columbia-Alberta plan to develop a voluntary provincially based defined pension contribution scheme that would operate in parallel with the CPP. Meanwhile, Quebec administers its own defined benefit pension plan, the Quebec Pension Plan (QPP), with benefits that are virtually identical to the CPP.

The floating of the new PRPP plan by Mr. Flaherty allows the federal government to avoid being mired in competing provincial interests and skirt around a potential constitutional debate.

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Finance ministers accept new pooled registered pension plan

"It's a multi-jurisdictional challenge to get a consensus on the CPP," Mr. Flaherty admits. *"A high level of regulatory harmonization across the respective jurisdictions would be important to help increase the efficiency and effectiveness of these arrangements."*

The PRPP proposal met with mixed reaction, with financial industry groups such as the Investment Dealers Association of Canada and the Canadian Life and Health Insurance Association endorsing the plan while the Canadian Labour Congress and other labour groups opposed it, stating that voluntary pension options will not solve the basic problem that Canadians are simply not saving enough for retirement.

Details of the PRPP plan include the following:

- Allowing the self-employed, those employed by companies that do not offer a pension plan and similar individuals to participate in the PRPP.
- Allowing portability of pension benefits.
- Regulated financial institutions that are capable of taking on a fiduciary role (such as banks, insurance companies and trust companies) will be eligible to administer PRPPs.
- PRPP administrators must have the ability to provide plans suited to different types of plan members.
- Administrators will be responsible for investing plan assets. While returns will be *"co-mingled for investment purposes, participants will have personal accounts for record-keeping purposes."*
- Administrators will be able to offer a variety of investment funds to allow plan members to develop a personal investment portfolio based on their individual risk profile and investment objectives.
- Upon enrolment in the PRPP, individuals will have an opportunity to select an investment mix consistent with their retirement objectives.
- PRPP administrators will be responsible for regular disclosure including the provision of plan statements, investment returns, costs, fees, contributions and plan amendments.
- Administrators will be required to provide an illustration of the retirement income that could be generated by the member's plan assets if they were used to purchase an annuity.
- Administrators will be responsible for handling member inquiries and receiving member contributions.
- Employers will be allowed to offer the PRPP to their employees and make contributions to plans on behalf of individual plan members. Employer contributions will be locked-in.

- Employers participating in the PRPP will also be able to determine employee contribution levels, plan enrolment, premium collection and remission and informing plan administrators of member terminations and enrolments.
- Membership in the PRPP must be available to employees at all times, not just at hire.
- Individuals may make regular contributions to the PRPP or single, lump sum contributions to the plan.
- Each province or territory will determine whether employee participation in the PRPP will be mandatory.
- Upon enrolment, PRPP members will be classed as either *"employed members"* associated with an employer or *"individual members"* who are self-employed or employed by organizations that do not offer a retirement plan. Individual members will be responsible for *"the tasks that would otherwise be borne by an employer, including making the choice to enrol, selecting contribution rates and remitting contributions to the plan."*
- Members terminating their employment with an employer will be allowed to remain in the employer's PRPP or to transfer their assets to another retirement savings vehicle.
- Members will be able to voluntarily transfer PRPP assets to other retirement savings plans at any time.

If implemented, the new universal pension plan could be introduced as early January 2012.

The federal government proposal, called *Framework for pooled registered pension plans,* can be seen on the federal Ministry of Finance website at www.fin.gc.ca. Key-in *PRPP* in the search engine on the home page. ❧

PRPP receives mixed reviews and grudging acceptance

Finance Minister Jim Flaherty's Pooled Registered Pension Plan (PRPP) proposal has met with grudging acceptance from the provinces and labour groups.

While most groups endorsed the principle of developing a voluntary contributory pension plan for the self-employed and those employed by small businesses unable or unwilling to provide pension plans or group registered retirement savings plans (RRSPs) to their employees, the PRPP proposal has effectively pushed the reform of the Canada Pension Plan (CPP) to the political back burner.

Mr. Flaherty's proposal appears to have caught the provincial premiers and others by surprise, particularly when both he and his provincial counter-parts had agreed as late as June 2010 to make CPP reform a priority.

While finance ministers from six provinces said they were not necessarily opposed to the PRPP concept, they all agreed that CPP improvements were a necessity.

The loudest calls of dismay came from Ontario, which had proposed increasing the joint CPP employer-employee contribution levels to 12.1 per cent of yearly maximum pensionable earnings (YMPE) and increasing the YMPE to $70,000. (See the December edition of the *Coughlin Courier* for details.)

"We supported the federal proposal but we don't think it goes far enough," says Ontario Finance Minister Dwight Duncan. *"What I am concerned about is that [the PRPP] would be a substitute for modest changes to the Canada Pension Plan."*

Mr. Duncan went on to warn that if changes to the CPP are not made soon, they will have to be postponed until the next triennial plan review.

"That means you're effectively not looking at changes for another four or five years," he stressed.

The Ontario position was endorsed by a number of labour organizations including the Alberta Federation of Labour (AFL).

"My big fear is that reform delayed may become reform denied," says AFL President Gil McGowan. *"Even though they've managed to get a promise that people will keep talking about the CPP, the reality is that this option may be scuttled. Our hope is that the provincial finance ministers who support CPP expansion will be successful in encouraging Mr. Flaherty to realize that his original position in support of CPP expansion is really in the broader public interest."*

While Mr. Flaherty's deferral of CPP expansion in favour of the PRPP may be a political reversal, it could also be considered a blunt recognition of both economic and political realities.

The provinces of Alberta and Quebec have both challenged the concept of CPP expansion as well as its timing. Their hesitation has also been supported by business groups such as the Canadian Federation of Independent Business and the Canadian Taxpayers' Association, both of which object to the additional payroll taxes and administration that will result from CPP expansion.

"It's hard to imagine much interest in pursuing CPP expansion in Alberta," says Alberta Finance Minister Ted Morton. *"Expanding the CPP could create additional costs, additional burdens on business at a very bad time for that to be happening. Essentially, it is just another payroll tax to business."*

Quebec also expressed concern about the timing of the CPP expansion, citing that the economic recovery was far too fragile to support major changes to the national pension plan.

Plus, says Quebec Finance Minister Raymond Bachand, the new pooled pension plan *"will be very efficient, especially if it's compulsory for employers to offer the plan to their workers."*

In response, Nova Scotia Finance Minister Graham Steele accused the Alberta government of being *"locked-in by ideology"*, arguing that the federal government's quest for CPP unanimity has given Alberta an effective veto.

To date, the provinces of British Columbia, Manitoba, Ontario, New Brunswick, Prince Edward Island and Nova Scotia have joined in asking the federal government to keep expansion of the CPP on its agenda in addition to the launching of PRPP.

Approximately 60 per cent of employees in Canada have no workplace pension. ❧

Mandatory retirement ban closer

A private member's bill to ban mandatory retirement has passed second reading in the federal House of Commons.

Sponsored by Quebec Liberal Party member Raymonde Falco, the bill calls for the elimination of age discrimination for all federally regulated employees, including those working in the public service, banks, transport and telecommunications sectors. Ms. Falco maintains that mandatory retirement amounts to age discrimination.

The issue is currently under review by the Federal Court of Canada, which is considering the case of two Air Canada pilots who successfully challenged that airline's policies requiring pilots to retire at age 60. (See the December 2010 edition of the *Coughlin Courier* for details.)

While private members' bills are seldom passed into law, the clearance through second reading, agreement in principle by the House of Commons, is a major step forward for the bill.

Ms. Falco's bill will now be reviewed in committee and will be returned at a later date to the House of Commons for a final vote. ❧

Quebec mandates lower generic drug prices

The government of Quebec has announced that it will decrease generic drug prices in that province to 25 per cent of their brand name equivalent.

The reduction, which will be phased in over a two-year period, will see prices reduce to the 30 per cent equivalency in April 2011 followed by a reduction to the 25 per cent level in April 2012.

The move follows Ontario's June 2010 legislation requiring the staged reduction of generic drug prices to the 25 per cent level by April 2012. (See the June 2010 edition of the *Coughlin Courier* for details.)

Quebec has legislated a *"best price policy"* that requires it to have the lowest drug prices in Canada.

The lower prices will apply to private insurance plans and group benefits coverage. ❧

Alberta reduces generic drug prices

The government of Alberta has announced that generic drug prices there will be reduced to 56 per cent of their brand name equivalent from the previous equivalency of 75 per cent.

As part of its conversion strategy, transitional allowances will be paid to pharmacies on all prescriptions under $75 as follows:

April 1, 2010 to March 31, 2011: $3 per prescription.

April 1, 2011 to March 31, 2012: $2 per prescription.

April 1, 2012 to March 31, 2013: $1 per prescription.

The allowances expire after March 31, 2013. ❧

Ontario drops funding for vitamin D tests

The Ontario government says it will no longer cover the cost of vitamin D testing.

The new rules, which went into effect on December 1, 2010, are designed to stem the rise in costs associated with the tests. They cost approximately $50 each.

Since 2004, the number of vitamin D tests ordered by Ontario doctors has increased from 29,000 to more than 700,000.

Low levels of vitamin D have been associated with increased cancer risk, heart disease, diabetes and other diseases.

The move by the province was called *"very retrogressive"* by the Ontario Medical Association, which argued that accurate monitoring of vitamin D absorption levels among patients requires regular testing.

The Ontario Health Insurance Plan will still cover vitamin D tests for people diagnosed with rickets, osteoporosis and kidney disease.

With the removal of coverage from the government health insurance plan, benefits administrators should expect increased claims activity involving the tests. ❧

LIF and CANSIM rates for 2011

The Office of the Superintendent of Financial Institutions (OSFI) has updated its table listing the annual maximum withdrawals that can be made from a life income fund (LIF). As well, the Canadian Socio-economic Information Management (CANSIM) interest rate, which is used to determine minimum interest rates on federally regulated life income funds, has been set at 3.60 per cent for the first 15 years and 6.00 per cent for the years remaining until the LIF owner turns age 90.

The new table follows:

The maximum amount of money that can be withdrawn from a life income fund (LIF)
OSFI 2011
November CANSIM B14013: 3.60%

Age on Jan 1	Age on Dec 31	Total years	Maximum withdrawal rate	Age on Jan 1	Age on Dec 31	Total years	Maximum withdrawal rate
20	21	70	4.5831%	55	56	35	5.2631%
21	22	69	4.5884%	56	57	34	5.3175%
22	23	68	4.5940%	57	58	33	5.3764%
23	24	67	4.6001%	58	59	32	5.4403%
24	25	66	4.6064%	59	60	31	5.5097%
25	26	65	4.6132%	60	61	30	5.5853%
26	27	64	4.6204%	61	62	29	5.6676%
27	28	63	4.6281%	62	63	28	5.7576%
28	29	62	4.6363%	63	64	27	5.8562%
29	30	61	4.6450%	64	65	26	5.9645%
30	31	60	4.6542%	65	66	25	6.0837%
31	32	59	4.6640%	66	67	24	6.2154%
32	33	58	4.6745%	67	68	23	6.3613%
33	34	57	4.6857%	68	69	22	6.5237%
34	35	56	4.6975%	69	70	21	6.7051%
35	36	55	4.7102%	70	71	20	6.9087%
36	37	54	4.7237%	71	72	19	7.1385%
37	38	53	4.7381%	72	73	18	7.3994%
38	39	52	4.7534%	73	74	17	7.6977%
39	40	51	4.7698%	74	75	16	8.0412%
40	41	50	4.7873%	75	76	15	8.4405%
41	42	49	4.8059%	76	77	14	8.8983%
42	43	48	4.8259%	77	78	13	9.4280%
43	44	47	4.8472%	78	79	12	10.0477%
44	45	46	4.8700%	79	80	11	10.7819%
45	46	45	4.8944%	80	81	10	11.6649%
46	47	44	4.9206%	81	82	9	12.7464%
47	48	43	4.9486%	82	83	8	14.1008%
48	49	42	4.9786%	83	84	7	15.8451%
49	50	41	5.0109%	84	85	6	18.1742%
50	51	40	5.0456%	85	86	5	21.4391%
51	52	39	5.0828%	86	87	4	26.3415%
52	53	38	5.1229%	87	88	3	34.5189%
53	54	37	5.1661%	88	89	2	50.8841%
54	55	36	5.2127%	89	90	1	100.0000%

2011 brings changes to CPP payment schedules

The new year has brought some major changes to the payment schedules of the Canada Pension Plan (CPP).

Effective January 1, 2011, phased decreases in benefits will be applied to those who take the pension prior to age 65. The monthly reductions will begin in 2012 and will continue to 2016 as follows:

Age 60 in year	Monthly reduction	Annual reduction	Maximum benefit reduction at age 60
2012	0.52%	6.24%	31.2%
2013	0.54%	6.48%	32.4%
2014	0.56%	6.72%	33.6%
2015	0.58%	6.96%	34.8%
2016	0.60%	7.20%	36.0%

Under the pre-2011 rules, the CPP benefit was reduced by 0.5 per cent per month before age 65, with the maximum reduction amounting to 30 per cent at age 60.

The tightening of the early retirement benefits is designed to encourage members to remain in the workforce for longer periods. As part of this strategy, benefits for those who elect to take the CPP after age 65 will be increased on a phased basis as follows:

Year	Monthly increase
2011	0.57%
2012	0.64%
2013	0.70%

Under this schedule, a person who defers the CPP retirement pension to age 70 will receive an increase of 34.2 per cent of the regular CPP benefit in 2011, 38.4 per cent in 2012 and 42.0 per cent in 2013 and onwards.

Another major change to the plan involves allowing plan members between the ages of 60 and 65 to collect CPP benefits while continuing to work, provided they continue to contribute to the plan. Contributions are voluntary after age 65. This arrangement, which will become effective in 2012, will allow members to have a phased retirement where they can collect CPP benefits while remaining employed. Under previous arrangements, plan members had to quit work for at least two months before they could qualify to receive a CPP benefit.

More information on the CPP changes can be found at the Service Canada website at www.servicecanada.gc.ca. ❧

Canadian cancer survival rates rank highest in the world

Canadians diagnosed with certain forms of cancer have the highest survival rates in the world, according to a study published by the British medical journal *The Lancet*.

The study examined survival rates among patients with lung, breast, colorectal and ovarian cancer in Canada, the UK, Sweden, Denmark, Norway and Australia, all of which have similar universal health care systems, between 1995 and 2007. While survival rates increased in all six countries, Canadian rates exceeded those of its peers.

For example, the five-year conditional survival rate for lung cancer patients was 42.1 per cent in Canada compared to 28.2 per cent in Britain. The rate for ovarian cancer was 54.4 per cent, the best in the world. Canadian five-year survival rates for breast cancer and colorectal cancer were 89.6 per cent and 76.4 per cent respectively.

"Cancer survival is a key measure of the effectiveness of health care systems," says Sir Michael Richards, British Department of Health national director for cancer.

"It's good news for cancer patients," says Dr. Heather Bryant, vice-president for cancer control at the Canadian Partnership Against Cancer. *"Canada does well compared to other countries. All six countries have implemented national cancer strategies. This data will help each country refine its goals."*

The five-year survival rate only includes patients that have lived for more than one year after being diagnosed with cancer. The rate excludes those with aggressive cases of the disease and those in the late stages of its progression.

More than 2.4 million cancer patients were involved in the study. ❧

Drug shortages could increase benefit costs

Widespread shortages of common prescription medications have been reported throughout Canada and parts of the United States.

According to the Canadian Pharmacists' Association, 90 per cent of pharmacies across the country say that drug shortages have increased in the past year, forcing pharmacists to dispense less effective or more expensive medications.

"The vast majority of pharmacists are facing drug shortages on virtually every shift they work," says Ontario Pharmacists' Association Chief Executive Officer Dennis Darby. *"It's not a good news story for anyone in the system."*

Most frequently in short supply are antibiotics, anti-nausea and heart medications. Among them are the antibiotics **penicillin**, **tetracycline** and **cephalexin**, the anti-depressant **amitriptyline** and the blood thinner **heparin**.

According to the Canadian Pharmacists' Association, 70 per cent of more than 400 pharmacists surveyed by that organization believe that patient health has been undermined by the drug shortage.

While there is no single cause for the shortage, a lack of raw ingredients sourced primarily in China and India has contributed to the problem. As well, poor quality control in those countries has resulted in contamination of supplies and recalls of certain drugs. For example, in 2008, contamination of Chinese-made heparin resulted in a worldwide recall and resulting shortage of that drug.

Domestically, legislated reductions to generic drug prices by Ontario, Quebec, Alberta and British Columbia may have deterred drug manufacturers from producing certain medications, the Canadian Pharmacists' Association reports.

While the Canadian Generic Pharmaceutical Association denies that the generic price reductions have resulted in reduced drug production, it does concede that the trend to having older generic medications produced by only one or two companies has left some drugs vulnerable to ingredient supply disruptions, says spokesman Jeff Connell.

For plan sponsors, the scarcity of some common prescription medications could lead to increased claim costs and potential administrative complications as alternate medicines are dispensed to cover specific drug shortages. ❧

2011 government benefits limits

Following are the maximum benefits or limits for selected government benefits for 2011:

Old Age Security (OAS)	
Maximum pension income	$524.23 per month
Canada/Quebec Pension Plan (C/QPP)	
-Maximum pension income	$960 per month
-Yearly maximum pensionable earning (YMPE)	$48,300
-Contribution rate: employee	4.95 per cent
-Contribution rate: employer	4.95 per cent
-Maximum annual contribution: employee	$2,217.60
-Maximum annual contribution: employer	$2,217.60
-Death benefit	$2,500
-Maximum survivor benefit, age 65 and over	$576
-Maximum survivor benefit, under age 65	$529.06
Employment Insurance	
-Maximum weekly benefit	$468 per week
-Maximum yearly insurable earnings	$44,200
-Contribution rate: employee	1.78 per cent (Quebec: 1.41 per cent)
-Contribution rate: employer	1.40 per cent
-Maximum contribution: employee	$786.76 (Quebec: $623.22)
-Maximum contribution: employer	$1,101.46 (Quebec: $872.51)
Registered retirement savings plan contributions	Lesser of 18 per cent of income to a maximum of $22,450 per year.

Fast facts

- The Quebec government raised its provincial sales tax rate to 8.5 per cent on January 1, 2011. The rate will increase to 9.5 per cent on January 1, 2012. The increase will affect administration fees on administrative services only (ASO) plans that exclude insurance protection.
- Effective January 1, 2011, premiums for the British Columbia Medical Services Plan increased by $3.50 to $60.50 for single coverage and by $7 to $121 for family coverage.
- Seven out of 10 Canadians say they plan to work after retirement, a Scotiabank study indicates. The reasons for continuing to work: to remain mentally active (cited by 72 per cent of respondents); to maintain social contacts (57 per cent); and out of financial necessity (38 per cent.)
- Percentage of Canadians contributing to a registered retirement savings plan (RRSP): 78. Percentage that have opened a tax-free savings account (TFSA): 43. Percentage planning to retire that have saved less than $20,000 over the past five years: 55. Percentage expecting to have retirement money come from a lottery win: 5.
- Disability rates among employees who work for managers that are obsessed with benchmarks are twice those of employees who work in a more relaxed environment, a study by the Conference Board of Canada indicates. Ratios of cardiovascular risk factors were two to six times higher among workers facing rigid managers.
- Research by Oxford University, University College London and the Wellcome Sange Institute has proven that chronic fatigue syndrome is not caused by the XMRV virus. The findings refute earlier studies that suggested the disease can be contracted through a viral infection.
- The Hungarian parliament has passed legislation requiring all assets held in private pension funds to be rolled into state-run pension plans. Those who refuse to allow their funds to be transferred to the state plan will be forced to pay a 10 per cent penalty and will not be allowed to contribute to the state pension system. Hungary was one of the first eastern European countries to offer voluntary, defined contribution private pensions following the collapse of communism. ❧

There is no such thing as *"free"* health care

How much does *"free"* health care cost? Probably more than you think, the Fraser Institute says. And it is certainly far from being free, it suggests.

According to the policy research organization, the true cost of health care is misunderstood by Canadians, primarily because health care services are delivered at no cost at point of use or because health care spending estimates are usually presented in numbers so large that they are incomprehensible to the average person.

For example, the Institute says, published data stating that health care costs $125 billion in tax dollars is meaningless to most people. A more accurate description would be to suggest that every man, woman and child in Canada pays an average of $3,663 annually for health care services through taxation, it says.

However, since a large minority of the population are dependant children, elderly, infirm or otherwise unable to contribute to the health care costs, a more accurate description of the cost of health care would be to "carve" its portion from the total tax bill paid by taxpayers using the 10 income groups employed by the Canada Revenue Agency for tax filing. Assuming that health care costs consume 25.6 per cent of government tax revenues, as reported by the federal government, the Fraser Institutes calculates that the amount paid for health care services by income bracket would amount to the following:

Pre-tax income	Amount paid for public health insurance through taxation
$11,763	$489
$25,252	$1,221
$34,180	$2,327
$43,152	$3,714
$52,897	$5,182
$65,308	$6,758
$79,259	$8,663
$87,486	$10,612
$123,452	$13,820
$234,129	$32,056

These costs only represent the direct costs of health care, the Institute says. They do not include indirect costs such as tax collection or other administrative functions. ❧

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