COUGHLIN
employee benefits specialists

COURIER

APRIL 2011

AT A GLANCE ...

Growing shortage now hits common drugs 1
Private label generic drugs a headache for the Ontario government............................. 2
Denial of cancer drug leads to hard questions on universality.......................... 3
Quebec budget features QPP reforms and new voluntary pension plan .... 4 & 5
Ontario pension plan sponsors should budget for grow-in benefits................... 6
Ontario pension changes could have tax implications for members 6
Federal survivor benefit ruled not discriminatory 7
European court bans different insurance rates for men and women 7
Raising minimum pension age not enough, OECD says 7
Fast facts 8
World pension assets grow to $26 trillion................... 8
PPN update............................. 8

COUGHLIN
employee benefits specialists

Growing shortage now hits common drugs

The growing drug shortage in North America has expanded to include some of today's most widely used prescription medications.

According to data released by the Canadian Pharmacists' Association, 93 per cent of its member pharmacies are now reporting widespread shortages of prescription medications. Compounding the problem is the fact that the shortages are no longer confined to obscure medications or to popular "lifestyle" medications, such as certain erectile dysfunction drugs.

Among the drugs in short supply are Penicillin, the world's first antibiotic, Heparin, a blood thinner, Twinrix, used to treat hepatitis A and B, Amitriptyline, an anti-depressant, Thiopental sodium (also known as sodium pentothal), an anaesthetic, and many others.

Changes in government drug pricing strategies, raw material shortages, quality control issues in manufacturing centres in China and India, container shortages, more stringent regulations and monopolization of production of some drugs have all been blamed for the shortages.

Drug companies are not required to inform the federal government of shortages or explain why some drugs may be in short supply.

"Patients are having to shift to third or fourth line alternatives and are not receiving the level of treatment as they require, or in the worst cases, are not receiving necessary medications at all," the Canadian Pharmacists' Association reports. *"Patients are losing faith and trust in the health care system and are having to spend inordinate amounts of time tracking down alternative pharmacies in the hope of receiving their necessary drugs. They may also be financially impacted, if alternative medications are not covered by public or private drug plans, which may require out-of-pocket payments."*

Due to the shortage, plan sponsors and administrators should be prepared to receive member claims for medications that may not be covered by their drug plans or are outside of a member's normal drug purchasing patterns.

Top 10 drug shortages in Canada

Medication	Treatment
1. Amitriptyline	Anti-depressant
2. Cephalexin	Antibiotic
3. Metoclopramide	Heartburn and ulcers
4. Clonidine	Hypertension
5. Methotrimeprazine	Heartburn and ulcers
6. Diltiazem	Hypertension
7. Tetracycline	Bacteria infections, pneumonia, ulcers
8. Amoxicillin	Antibiotic
9. Hydralazine	Hypertension
10. Metronidazole	Anaerobic bacteria

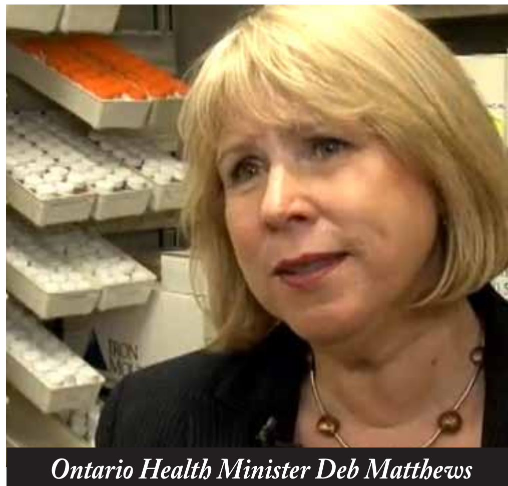
(Source: *Canada drug shortages survey: Final report.* Canadian Pharmacists' Association, December 2010.) ❧

Private label generic drugs a headache for the Ontario government

The fight between the Ontario government and the nation's largest drug store chains headed to the province's highest court this past March.

The government has said it will seek leave to appeal a lower court decision that blocked its attempt to prevent Shoppers Drug Mart and the Katz Group, owner Rexall pharmacies, from selling their own private-label generic prescription drugs.

The two pharmacy chains are attempting to introduce their own store-brand prescription medications to offset the more than $750 million in losses they incurred when the provincial government outlawed the paying of rebates by generic drug manufacturers in return for shelf space in their stores. (See the two June 2010 issues and April 2010 of the *Coughlin Courier* for background information.) The province also mandated the phased reduction of generic drug prices to 25 per cent of their brand name price by April 2012.



Ontario Health Minister Deb Matthews

While the pharmacy chains were prevented by law from directly recovering the rebate payments elsewhere, their introduction of private label generic drugs was viewed by the province as an attempt to quietly circumvent the government's generic drug price reforms.

"Our government has successfully managed to bring down the cost of generic drugs," says Ontario Health Minister Deb Matthews. *"We're using the money we saved to improve health care and add more drugs to the Ontario formulary. Private labelling does not benefit Ontarians."*

The Ontario Superior Court disagreed and sided with the pharmacies' argument that the province had no right to legislate the profits of private businesses.

"Controlling the profitability of the pharmacies is not a legitimate object of legislation, provided there is no corresponding cost to the consumer, which it does not," the Court ruled.

The pharmacy chains also argued that the introduction of private label generic drugs will standardize drug packaging and encourage greater efficiency in dispensing. In addition, Shoppers Drug Mart has already introduced the Sanis private label brand of prescription medications to seven other provinces and has plans to market the brand internationally.

While the dispute between the major pharmacy chains and the Ontario government could be considered a local issue, the potential for spillover of the problem into other provinces is a real possibility. For example, when Ontario lowered its prescription drug costs to 25 per cent of the brand name equivalent, Quebec was forced to follow as it has legislation in place requiring that province to have the lowest drug prices in Canada. Also, both British Columbia and Alberta followed Ontario's lead and introduced their own generic drug price reductions.

A ruling in favour of the pharmacies would encourage the spread of private label generic brands to other jurisdictions. It would also likely result in other large pharmacy operations, such as those owned or operated by Loblaws, Costco, Wal-Mart, Zellers and others, to introduce their own private label generic drugs.

Ontario argues that pharmacy chains would have a conflict of interest in dispensing medications which they also produce and market.

"Pharmacies could have an interest in dispensing their products in preference to others," the province said in its submission to the Superior Court.

If true, that could ultimately lead to higher drug prices and potential governance issues for benefit plans.

"It's going to mean upheaval in the pharmacy industry," says University of Calgary professor and generic drug expert Aidan Hollis. *"It undermines the whole system of banning rebates and poses some risks to generic drug manufacturers. The government needs to re-think its strategy for achieving lower drug prices."* ❧

Denial of cancer drug leads to hard questions on universality

The disparities of Canada's universal health care system were made apparent this past March when the Ontario government's denial of Herceptin drug treatment for a woman with breast cancer resulted in a confrontation between the province and cancer patients and advocacy groups across the country.

The 35-year-old Toronto woman was denied treatment because her tumour was less than one centimetre in size and was deemed "too small" by the province to qualify for the anti-cancer medication. To qualify, the tumour would have to double in size to one centimetre.

Had she lived in British Columbia, Alberta or Saskatchewan, the $40,000 drug treatment would have been covered under their provincial health care plans. Newfoundland, Quebec and Manitoba also fund Herceptin treatments on smaller tumours on a case-by-case basis.

"I feel like I caught my breast cancer too early," the mother of two children is quoted in the March 8, 2011 edition of *The Globe and Mail. "I followed all the rules, I found it early and the answer is: 'Sorry, not big enough.'"*

When administered as part of chemotherapy, Herceptin can significantly reduce the cancer recurrence rates among women with human epidermal growth factor receptor type 2 (HER-2). HER-2 occurs in 20 to 25 per cent of breast cancer patients.

The woman has had breast surgery and chemotherapy. Her oncologist had recommended the Herceptin treatment.

"It's a difficult situation for us as oncologists," says Dr. Philippe Bedard of the Princess Margaret Hospital in Toronto. *"We know patients in [the woman's] situation are at some degree of risk with chemotherapy or hormone therapy alone."*

Dr. Bedard then filed an exceptional access request to the province to allow the Herceptin treatment. His request was initially denied by Cancer Care Ontario, which said its clinical standards for such drug treatments were based on scientific evidence and that it had no discretion to circumvent its treatment codes.

The decision of the provincial health care agency was backed by Ontario Health Minister Deb Matthews.

"We cannot have a health system where the stories that land on the front page of the paper determine our health care policy," Ms. Matthews told the provincial legislature when questioned by members of the opposition. *"It would be unfair to those who do not get their stories on the front page if we were to give priority to those who do."*

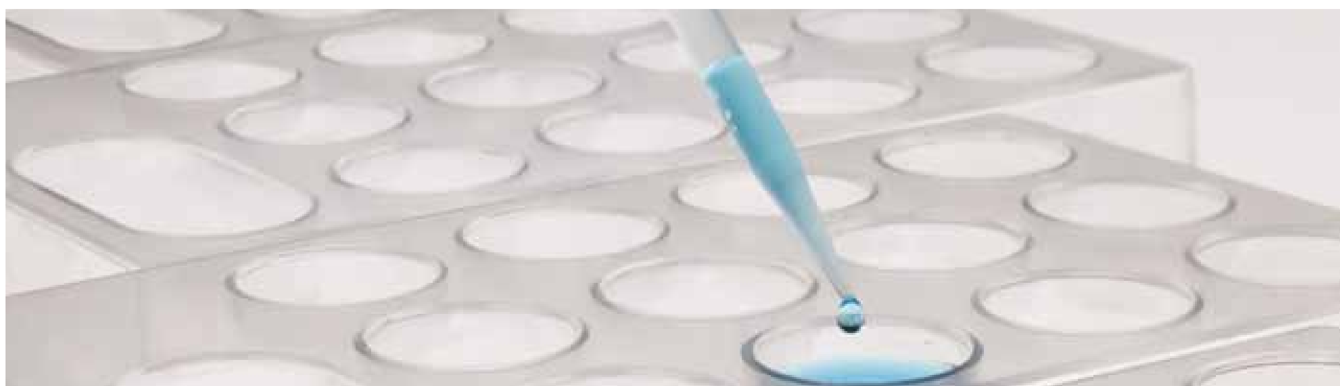
However, the provincial government reversed its position and agreed to allow expanded access to the cancer drug when the woman appealled to Ontario Ombudsman André Martin and he publicly agreed to investigate the case.

"Based on our informal interviews with oncologists, Cancer Care Ontario and the Ministry, I've determined that this case raises issues serious enough to warrant a systemic investigation," Mr. Martin said.

In reversing its policy, the Ontario government said its access procedures for Herceptin will now mirror those of the other provinces.

"This is the option that makes sense to me," Ms. Matthews said following the government's decision to support the Herceptin treatment. *"We owe it to people who have a rare condition or a condition that doesn't fit into the established criteria."*

For plan sponsors and administrators, the woman's case illustrates the complexity of health care claims adjudication. Drug treatments and medical procedures that may be covered in one jurisdiction may not be covered in others, despite literature and medical opinion confirming or denying the appropriateness of the treatment. For administrators of benefit plans covering workers in more than one province, the need to know and understand the differences in treatment protocols by province is paramount. ❧



Quebec budget features QPP reforms and new voluntary pension plan

In an effort to "restore equilibrium" to its pension system, the province of Quebec has introduced a number of changes to the Quebec Pension Plan (QPP). In addition, the province has introduced measures to become the first jurisdiction in Canada to implement a voluntary retirement savings plan (VRSP) for workers not covered by employer-sponsored pension plans.

QPP changes

As part of the province's March 17, 2011 budget, Quebec Finance Minister Raymond Bachand announced that QPP contribution rates for both employees and employers will increase by 0.15 per cent of pensionable income each year from 2012 to 2017.

The increases will raise joint employee-employer contributions from the current level of 9.90 per cent of pensionable income to 10.80 per cent by January 1, 2017.

According to Finances Quebec, the contribution increases will generate an extra $1.25 billion for the QPP by 2017.

The provincial pension plan is facing a number of financial and demographic pressures which, if not addressed, could result in the financial insolvency of the QPP within the next two decades. In the 2008 market crash, the Caisse de dépôt et placement du Québec, the primary investment vehicle for the QPP, lost more than $40 billion, or 25 per cent of its value, due largely to its over exposure to property investments in the US. As well, its earnings since the market recovery have also lagged behind other pension plans, including the Canada Pension Plan (CPP).

In addition, according to Finances Quebec, the number of working-age people in the province will decline by 3.8 per cent from 2013 to 2030, while the working age population in the other nine provinces will increase by an average of 5.5 per cent. In Ontario, that increase is expected to jump by 9.6 per cent.

"This comparison shows the magnitude of the challenge facing Quebec," the provincial budget document *A stronger retirement income system* says. *"In 2020, Quebec will have only three people of working age for each retired person, compared to eight in 1980. The decline in the number of workers will thus limit contributions to pension plans."*

QPP contribution rates 2011-2017

Date	Increase (%)	Employee rate	Employer rate	Total
Today	--	4.950	4.950	9.90
January 1, 2012	0.15	5.025	5.025	10.05
January 1, 2013	0.15	5.100	5.100	10.20
January 1, 2014	0.15	5.175	5.175	10.35
January 1, 2015	0.15	5.250	5.250	10.50
January 1, 2016	0.15	5.325	5.325	10.65
January 1, 2017	0.15	5.400	5.400	10.80

Mirroring recent changes to the CPP, the QPP will also introduce phased decreases in benefits to those that take the QPP pension prior to age 65. The monthly reductions will begin on January 1, 2013 based on the following schedule:

Age 60 in year	Monthly reduction	Annual reduction	Maximum benefit reduction at age 60
2013	0.50%	6.00%	30.0%
2014	0.53%	6.36%	31.8%
2015	0.56%	6.72%	33.6%
2016	0.60%	7.20%	36.0%

Under the pre-2011 rules, the QPP 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. While the new reduction plan is similar to that introduced by the CPP, the implementation schedule and percentage declines in the QPP are different from those proposed for the CPP.

To encourage employees to remain in the workforce past age 65, the QPP will increase its benefits by 0.7 per cent per month beginning on January 1, 2013. While similar to the CPP, the QPP proposal does not feature the phased growth of the benefit increase in 2011 and 2012 as planned by the CPP.

Ultimately, however, both CPP and QPP will feature 0.7 per cent monthly benefit increases for those retiring after age 65, beginning in 2013. Under this schedule, a person who defers the CPP or QPP retirement pension to age 70 will receive an increase of 42.0 per cent from the benefit available at age 65.

"The objective of these adjustments is the same as those of the CPP, to encourage workers to remain in the labour market longer," the Quebec budget document says. *"The adjustments to the CPP started in January 1, 2011 and will end on January 1, 2016. At the same time, the adjustment factors that apply in the QPP will be similar to those that apply in the other provinces."*

New voluntary retirement savings plan

Also part of the Quebec budget was the proposed introduction of a voluntary retirement savings plan (VRSP) for Quebec workers who are not covered by registered pension plans through work.

Similar to the proposed pooled registered savings plan (PRPP) proposed by federal Minister of Finance Jim Flaherty in December 2010 (see the January 2011 issue of the *Coughlin Courier* for background), the VRSP will be managed by financial institutions such as insurance companies and banks. While all employers will be required to offer the VRSP to employees, they will not have to contribute to the plans. Employees will be enrolled automatically in a VRSP but will be allowed to withdrawal voluntarily from the plan. In effect, every Quebec worker, including the self-employed, will have access to an individual retirement savings plan that will be administered by a financial institution.

The province stressed that in introducing its own VRSP, it will seek *"a high degree of harmonization"* with other provincial or federal versions of the savings plan to facilitate labour mobility and interprovincial asset transfers of VRSP savings. ❧

Ontario pension plan sponsors should budget for grow-in benefits

Plan sponsors with defined benefit pension plans governed by Ontario's Pensions Benefits Act (PBA) will soon have to provide grow-in benefits to all involuntarily terminated employees.

Effective July 1, 2012, employees that are terminated and whose age plus years of experience total 55 or more on their termination date will be eligible to receive grow-in benefits until they qualify to receive government benefits such as the Canada/Quebec Pension Plan or Old Age Security.

Grow-in payments provide enhanced pension plan benefits for employees that retire before age 65. Until now, they were usually paid to older employees with defined benefit pensions that were wound up by the pension plan sponsor, usually after the closure or acquisition of the sponsoring company or organization. Under the Ontario government's newly passed pension reform legislation, the availability of grow-in benefits will be extended to all members of defined benefit pension plans facing involuntary termination. The only exception will be for those who are terminated due to *"wilful misconduct, disobedience or wilful neglect of duty,"* as defined under the PBA.

While the new rules do not become effective for more than a year, pension plan sponsors are advised to consider the financial impact that grow-in benefits could have on their plans in 2012, particularly if layoffs or acquisitions of companies with defined benefit plans under PBA jurisdiction are being contemplated. As well, plan sponsors facing collective bargaining in 2012 should keep in mind the extra costs grow-in benefits may have on their collective agreements and employee severance protocols.

Almost half of all pension plans in Canada are registered in Ontario. According to the Financial Services Commission of Ontario, 1,539 defined benefit pension plans serving 1.9 million participants were registered in that province. ❧

Ontario pension changes could have tax implications for members

Changes to Ontario's pension portability rules could result in bigger tax bills for pension plan members, starting as early July 1, 2011.

Under current Ontario Pensions Benefits Act (OPA) regulations, plan members terminating from a pension plan can transfer the commuted value of their pensions to one of the following three registered vehicles:

1. another pension plan;
2. a prescribed retirement savings account such as a locked-in retirement account (LIRA) or life income fund (LIF); or
3. a life insurance company to purchase a life annuity.

Effective June 30, 2011, the third option will be eliminated. Instead, plan members will be required to first purchase a LIF or LIRA and then use those funds to purchase an annuity, making the annuity option a two-step process. However, transfers to LIRAs and LIFs will be subject to the maximum transfer limits of the Income Tax Act. Any amounts exceeding those limits must be provided in cash to the member and be subject to taxation.

With interest rates at historic lows, it may be possible that the commuted values of members' pensions could exceed the Income Tax Act transfer limits.

While plan administrators may transfer any remaining funds that exceed the tax transfer limits to a member's personal registered retirement savings plan (RRSP) without holding tax at source, this option is dependent on the member having sufficient RRSP contribution room to accept the additional pension funds on transfer. Depending on the size of the commuted value of their individual pension, members with little or no additional RRSP contribution room could face significant tax liabilities.

The new rules do not apply to former pension plan members who are eligible to purchase an immediate annuity on the date of plan termination or wind-up. ❧

Federal survivor benefit ruled not discriminatory

The Supreme Court of Canada has dismissed a case of two women who alleged that the federal government's survivor benefit for widows of deceased employees discriminates against older people.

Under the government's retiree benefits plan, death benefits are reduced by 10 per cent each year after the participant reaches age 65. As a result, survivors of older plan participants receive a reduced benefit compared to those age 65 or younger. The benefit is paid in addition to the survivor pension, which amounts to half of the deceased member's pension income.

In their case, the women argued that elderly women spouses are less secure economically and have *"experienced systematic labour market discrimination, including pay inequity"* and therefore should not experience a benefit reduction on the death of a spouse age 65 or older.

Lawyers for the federal government countered that the younger survivors of deceased members are likely to need more money since they are less likely to receive a full survivor's pension.

The Supreme Court agreed with the federal government.

"This benefit is akin to life insurance," said Chief Justice Beverley McLachlin. *"This benefit is not intended to be a long-term income stream for the spouses of older plan members. Any reduction in the supplementary death benefit paid to the spouses of older employees is offset to some degree by the surviving spouse's survivor's pension. When the supplementary death benefit is considered in the context of the other pensions and benefits to which surviving spouses are entitled, it is clear that its purpose corresponds to claimants' needs."*

The Supreme Court ruling affects 5,000 survivors.

The federal government benefit plan pays out over $138 million in survivor death benefits each year. ❧

European court bans different insurance rates for men and women

The highest court in the European Union has banned the insurance industry from charging different rates for men and women.

Calling the industry practice of gender differentiation in rates discriminatory, the court ruling will affect tens or even hundreds of millions of people with life, health and auto insurance.

"Taking the gender of the insured individual into account as a risk factor in insurance contracts constitutes discrimination" the court said. *"The equal treatment of men and women must be absolute."*

Initial indications suggest that women will be most affected by the ruling as men live shorter lives and have more accident insurance claims. The result will mean higher rates for women to accommodate those extra risks. However, since women experience more health problems throughout their lives than men, the ruling's impact could increase rates for men seeking health insurance protection.

The court ordered the new rules to become effective throughout the European Union by December 21, 2012. However, the ruling did not receive ready acceptance from the insurance industry and European politicians.

"The judgement ignores the fact that taking a person's gender into account, where relevant to the risk, enables men and women alike to get a more accurate price for their insurance," said Association of British Insurers Director General Maggie Craig.

While the impact of the ruling on insurance rates is still to be determined, industry experts predict consumers in Britain alone can expect to pay an extra £936 million (approximately $1.5 billion, Canadian) for insurance coverage each year. Its impact on pension plans, which also use gender-based mortality assumptions to determine pension income payments, is still to be determined. Continent-wide, the court ruling will cost the equivalent of several billion dollars. ❧

Raising minimum pension age not enough, OECD says

The Organization of Economic Co-operation and Development (OECD) says that recent increases in minimum retirement ages throughout Europe are not enough to cover the high pension costs expected in the future.

While the organization projects that the minimum retirement age for both men and women will be 65 by 2050, increased life expectancies will outpace the funding requirements of most pension plans. The life expectancy for men is projected to increase by two years by 2050 while women will see their average life expectancy jump by 1.5 years.

As well, employers should do more to employ older workers, the economic and policy research organization says.

"Higher pension ages are only part of the answer," the OECD says. *"Countries need to do more to fight discrimination, provide training opportunities for older workers and to improve their working conditions. This would help employers adapt to a greyer workforce."*

Over the past year, countries such as the United Kingdom, France, Spain, Greece, Italy, Germany and others have raised their minimum pension ages. ❧

Fast facts

- The Vanier Institute for the Family reports that the average family debt in Canada is $100,000. The ratio of household debt to income is now 150 per cent, compared to 93 per cent in 1990. In other words, the average Canadian family owes $1.50 for every $1 it earns in after-tax income.
- The average amount saved per family in 1990, according to the Vanier Institute for the Family: $8,000, or 13 per cent of after-tax income. In 2010: $2,500, just 4.2 per cent of after tax income.
- Number of qualified seniors not collecting the Old Age Security benefit, according to the Canadian Task Force on Financial Literacy: 160,000. Total payments, not being received: $1 billion. Estimated number of eligible low-income seniors who are not receiving the Guaranteed Income Supplement: 150,000.
- Men are more likely to save for retirement than women, according to a poll conducted by Ipsos Reid for RBC. According to its survey of 1,457 people across the country, 44 per cent of men are putting money aside for retirement compared to 33 per cent of women. More alarming, 31 per cent of women have not started saving for retirement compared to 21 per cent of men.
- The Canada Pension Plan Investment Board reports that its assets in the third quarter of 2010 totalled $140.1 billion, the highest on record.
- A Leger survey for BMO Financial says that 40 per cent of all registered retirement savings plan (RRSP) owners have made withdrawals from their plans prior to retirement. The primary reason for the withdrawals were emergency expenses, sited by 35 per cent of respondents, and paying off everyday debts, which was mentioned by 26 per cent of survey participants. ❧

World pension assets grow to $26 trillion

Global pension assets topped the $26 trillion level in 2010, a record high, according to a Towers Watson global pension study.

The study of the world's 13 major pension markets indicates that assets have grown by 65 per cent since 2000, from $16 trillion to $26.5 trillion, despite the 2008-09 crash in equity markets.

While 10-year growth rate confirms the underlying strength of the pension investment market, the change in asset allocation to alternative investment vehicles could be cause for concern, the Towers Watson study suggests. In 2000, roughly seven per cent of pension investments were directed to more volatile investments such as hedge funds, real estate and commodities. Today, those assets account for 19 per cent of pension allocations while traditional equity and bond investments have either declined or remained stable over the 10-year comparison period. The allocation change could result in more pension plan asset volatility, particularly during periods of market uncertainty.

The world's pension plans continue to be vulnerable to events in US equity markets. According to the study, 50 per cent of the world's pension assets are held in the US. Japan follows a distant second, holding 12 per cent and the United Kingdom is third with seven per cent of the world's pension assets.

Pension assets by selected country ($ billion US)

Country	$ billion US
United States	13,196
Japan	3,152
UK	1,800
Canada	**1,213**
Australia	1,000
Netherlands	990
Switzerland	583
Germany	411
Brazil	392
South Africa	201
Singapore	186
France	178
Ireland	102
Hong Kong	85

PPN update

- Solly's Pharmacy of Unit 6, 25 Tapiola Crescent in Ottawa, has been renamed and moved to a new location. It is now **Hunt Club Guardian** pharmacy, located at 2430 Bank Street, Unit 7, in Ottawa. Its phone number remains unchanged at 613-521-7955.
- The following pharmacies are no longer members of the Coughlin & Associates Ltd. Preferred Provider Network: White Cross Pharmacy, of 264 Elgin Street, Ottawa, and McNeil Parkdale Pharmacy, 1077 Carling Avenue in Ottawa. ❧

The Coughlin Courier is published by Coughlin & Associates Ltd.
Board of directors: Brian Bockstael, Kirby Watson, Mark Hogan, Brent Moore & Ken Kaitola
Editor: David Whitbread **Graphic designer:** Victor Lima

printed on 100% post-consumer recycled paper