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AT A GLANCE ...

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Health care to consume 18 per cent of GDP by 2031

Health care spending as a percentage of gross domestic product (GDP) will likely increase by more than 55 per cent by 2031, a report by the C.D. Howe Institute says.

The report, entitled *Chronic Health Care Spending Disease: A Macro Diagnosis and Prognosis,* was written by former Bank of Canada Governor David Dodge and Bank of Canada economist Richard Dion. It suggests that even in a best case scenario, where the impact of an aging population is mitigated by improved technology and an increase in real personal incomes relative to the GDP, the ratio of health care spending to GDP will still jump from 12.0 per cent in 2009 to 18.7 per cent in 2031.

That's the best case scenario, the report says. Poor economic performance, lack of cost efficiencies from technological improvements or inappropriate health policy initiatives could result in health care costs consuming a far greater portion of the country's GDP, it suggests.

"*The nominal health care spending per capita is set to rise from about $250 in the last decade to $675 in the 2020s,*" the C.D. Howe report says. *"In the 2020s, Canadians will be spending 31 cents of every dollar of increase in their nominal incomes on health care, thus bringing the average share of health care spending in GDP up to nearly 18 per cent."*

The result of the increased proportion of the country's output being dedicated to health care will be a one-third reduction per capita in funds available for other goods and services, Mr. Dodge and Mr. Dion warn.

"Even in an optimistic scenario, private citizens will have to devote an increasing share of additional income to private health care insurance, direct out-of-pocket expenses on health care services and long-term care," according to the report. *"Even if we are incredibly successful in improving the productivity, efficiency and effectiveness of the health care system, we face difficult but necessary choices as to how we finance the rising share of additional income devoted to it."*

To hold off the anticipated jump in health care costs, the two authors warn that *"some combination of the following actions will be required to manage the 'spending disease'":*

- a sharp reduction in public services other than health care;
- increased taxes to pay for health care costs;
- increased spending by individuals on health care services now provided by the provinces, including increased co-pay arrangements or de-listing of services now being covered through public health care plans; and
- a major degradation of publicly insured health care standards, including longer queues for services, poorer quality services and the development of a private health care system for those able to pay for it.

"None of these options is appealing; there is no easy way to manage the chronic health care spending rise," the report concludes. *"It is now up to Canadians to have an adult discussion about how to manage it."* ❧

Seniors drug programs face funding crunch

Funding mechanisms for provincial drug care plans for seniors and those on social assistance will have to be radically altered in the coming years, the C.D. Howe Institute says.

According to the public policy research agency, programs such as the Ontario Drug Benefit plan (ODB) face a *"bleak prospect"* unless their funding base changes to a contributory plan similar to the Canada Pension Plan (CPP.)

According to its report entitled *A Social Insurance Model for Pharmacare,* the Institute suggests that costs for the ODB alone will grow by 400 per cent over the next 50 years and will eventually consume five per cent of the gross national product compared to the current level of one per cent.

"The current approach, paying drug costs out of general revenues, is untenable, particularly as baby boomers age and the workforce shrinks," the Institute says.

To overcome the coming funding crisis, the C.D. Howe Institute recommends that each worker aged 18 to 64 contribute between $1,040 and $1,370 per year to pre-fund their projected drug care expenses after retirement. The scheme would raise approximately $9 billion per year to cover future drug costs.

According to the Institute, consumers should *"sacrifice consumption on other goods and services today to help cover the cost of drugs they will need later."*

The Institute warns that more radical funding solutions will be required if a contributory drug care system is not adapted. Possible alternative funding mechanisms include the imposition of a 3.7 per cent payroll tax on all earnings of up to $72,450 per year and/or increasing the Harmonized Sales Tax by five per cent. However, both of these alternatives would be *"very tough to sell politically,"* it admits. ❧

Loss of defined benefit pensions accelerates

The erosion of defined benefit pension plans in the private sector is accelerating according to the 2011 Towers Watson Pension Risk Survey.

According the pension study, 51 per cent of the 150 defined benefit plan sponsors surveyed by that organization have now converted their plans to defined contribution arrangements. The level was 42 per cent just three years ago.

The retreat from defined benefit plans is likely to continue in the coming years, despite the projected improvement in economic conditions. With that in mind, many pension plan sponsors are biding their time, waiting for the right conditions to switch from defined benefit to defined contribution arrangements, the study suggests.

"While plan sponsors may not be able to afford to make changes right now, many are working on strategies to 'de-risk' [sic] *or even exit when the financial position of their plans improves,"* says Towers Watson Director of Investment Services David Service.

Reinforcing the problem is a general feeling held by 56 per cent of private sector plan sponsors surveyed, that the pension funding crisis of the past two years will continue over the long-term, despite the improving economic conditions.

Increased competition has also played a role in the paring of pension benefits. The latest high profile plan sponsor to abandon its defined benefit pension is Air Canada, which announced on April 12, 2011 that it had come to a tentative agreement with its pilots' union to provide only a defined contribution pension to all pilots hired from April 1, 2011 onwards. Pilots hired after November 1, 2010 will also be given an opportunity to convert their pensions to defined contribution arrangements. The pilots' defined benefit plan will be wound down over many years.

Air Canada is facing increased competition from WestJet, Air TransAT and other carriers and is attempting to reduce its overhead costs. Acceptance by its pilots of the less expensive defined contribution pension plan could open the door to similar concessions by its other collective bargaining units.

Similar moves may occur in other industrial sectors as companies attempt to face-off against lower cost competitors. ❧

Ontario court's insolvency ruling favours pensioners

An Ontario Court of Appeal ruling has pushed pensioners and pension plan members to the front of the line of creditors when insolvent plan sponsors face financial restructuring.

In an April 8, 2011 ruling, the Court said that the members of two underfunded pension plans of an aluminum smelter seeking protection under the Companies Creditors Arrangement Act (CCAA) should have precedence over debtor-in-possession lenders that provided emergency money to the failing company on condition that they would be paid first in a bankruptcy.

The Appeals Court ruling completely reverses the conventional order of creditor precedence in restructuring proceedings.

Until now, pensioners and pension plan members often faced major pension payout reductions following corporate restructuring. Secured lenders had priority over both unsecured creditors and pensioners. The solvency of a plan sponsor's pension and the claims of its pensioners were considered secondary. However, high profile insolvencies such as those of Nortel, AbitibiBowater and others drew attention to the problems faced by elderly pensioners when their sponsoring companies faced insolvency and restructuring.

Under the Court's ruling, companies under CCAA protection will have to address their pension commitments during restructuring. In the case of the aluminum company, the Court of Appeal suggested that it deliberately ignored its pension obligations when it sought CCAA protection.

"The plan sponsor knew that the plans were underfunded and that unless more funds were put into the plans, pensions would have to be reduced," ruled Madam Justice Eileen Gillese.

"The decision that the company was unilaterally making had the potential to affect the plans' beneficiaries' rights at a time when they were particularly vulnerable."

The Court's decision is expected to have a major impact on corporate financing, particularly for companies facing financial distress.

"The case does have very wide implications, very bad implications, not just for debtor-in-possession lenders but for credit markets generally," says Newton Glassman of the Catalyst Capital Group, Canada's largest distressed debt investment firm.

According to legal experts, companies will now have to declare to the courts that they cannot meet their pension obligations when they apply for CCAA protection. That could make emergency financing harder to secure as lenders would likely be hesitant to finance firms considered to be in breach of fiduciary duty while, at the same time, the lender's claims would be considered secondary to those of pensioners. The result could be increased corporate bankruptcies and fewer applications for CCAA protection.

In full bankruptcy proceedings, secured creditors have priority over pensioners.

"It's a very big win for pensioners, but I'm just not sure that, in the long run, it won't actually have a negative or rebound effect," says McCarthy Tétrault insolvency lawyer Kevin McElchern.

While Madam Justice Gillese stressed that CCAA applications should be reviewed on a case-by-case basis and *"there may well be situations where pension plans can't receive priority,"* the change to creditor rankings during corporate insolvencies is sure to create some confusion for pension plan administrators and members in the near term. ❧

Few prepare for the unexpected retirement

While the vast majority of "pre-retirees", those age 50 or older, believe they know what date they will retire, almost half have made no plans for an unexpected retirement, the Second Annual RBC Retirement Myths and Realities survey suggests.

According to the RBC study, 41 per cent of those of who have already retired were forced to do so unexpectedly. The top two reasons for unplanned or forced retirements were employers' requests to retire and poor health.

"We're finding that even those who think they are well-prepared for their retirement years have not taken the unexpected into consideration," says RBC Retirement Strategies spokesperson Lee Anne Davies. *"When their job disappears suddenly, they struggle with financing the added years in retirement that they hadn't counted on."*

That trend is confirmed in a surge of the number of retirees returning to the workforce in 2011, RBC says, with 41 per cent returning to work due to lack of income compared to 32 per cent in 2010.

The RBC poll was conducted among 2,245 Canadians age 50 or older with assets worth $100,000 or more. ❧

QPP reforms result in later retirement plans

The Quebec government's reforms to the Quebec Pension Plan (QPP) may be having their desired effect — workers are now considering delaying their retirement past age 65.

According to a CROP poll of 500 Quebec workers conducted for the Ordre des conseillers en ressources humaines agréés, more than one-third of respondents feel that the Quebec government's budget proposals to reduce QPP benefits for plan members retiring prior to age 65 while increasing payouts to those who retire between ages 65 and 70 will encourage them to remain in the workforce for a longer time.

Under the new regulations, the QPP will introduce phased decreases in benefits to those that take the QPP pension prior to age 65. 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. With the new reduction schedule, benefit reductions will amount to 36 per cent of the benefit available at age 65.

In addition, the QPP will increase its benefits by 0.7 per cent per month beginning on January 1, 2013. A person who defers the QPP retirement pension to age 70 will receive an *increase* of 42.0 per cent from the benefit available at age 65. (See the April 2011 edition of the *Coughlin Courier* for background information.)

The CROP poll also showed that the average age that Quebec residents began to receive the QPP under the former payout schedule was 63. Under the new rules, the majority of respondents favour delaying their retirement to the 65 to 69 age range. Over one-quarter, 26 per cent, now list age 70 as their preferred retirement age. This compares to only nine per cent prior to the 2011 provincial budget proposal.

While the pension reforms may result in improved employee retention and less strain on the government pension plan, employers will have to take steps to adapt to a "greyer" workforce, says Ordre President Florent Francoeur.

"Organizations will have to adjust their employee retention strategies to retain older employees," he says. *"To keep these workers, they have to continue offering them development opportunities and challenges, as well as flexible conditions that take their situation into account."*

The QPP reforms parallel those introduced to the Canada Pension Plan (CPP) at the beginning of 2011. While polls similar to the CROP survey on the QPP have not been conducted for the CPP, it is plausible that similar shifts in retirement intention patterns may occur among CPP recipients. If so, pension plan sponsors in CPP-based jurisdictions may also have to reconsider their organizations' projected employee retirement patterns in the coming years. ❧

Intended retirement age of Quebecers pre vs. post March 17, 2011 budget

	Percentage of workers considering retirement pre-March 17, 2011	**Percentage of workers considering retirement post-March 17, 2011**
Under 65	45%	6%
65	41%	48%
66 to 69	5%	20%
70 and over	9%	26%

Ontario outlines solvency relief criteria for public pensions

The Ontario government has released guidelines outlining which public pensions qualify for solvency relief.

The move follows a series of near insolvencies during the 2008-09 market crash involving organizations such as the University of Toronto and high profile public institutions (see the June 2009 edition of the *Coughlin Courier* for background.)

Under the new guidelines, a public sector pension facing insolvency must meet the following criteria to qualify for funding support:

- it must be a pension plan for public sector members including those employed by crown corporations, government agencies, school boards, universities and municipalities;
- it must provide defined benefits;
- the plan sponsor must be a single employer (multi-employer plans and jointly-sponsored plans are not eligible for funding relief);
- the plan must have a sufficient number of active members accruing benefits. Plans that are comprised primarily of retired members or that are closed, will not qualify for support;
- on first valuation, the plan must have a ratio of market value to assets of less than 90 per cent; and
- the plan sponsor must submit a plan to the Ontario Ministry of Finance outlining its proposed steps to bring to pension plan back to full sustainability.

If a public plan qualifies for solvency relief, the government's support process will involve two stages. The first limits contribution requirements by plan sponsors based on a pre-set formula designed to strengthen plan asset ratios. It also features increased disclosure requirements to plan members and limits contribution holidays by plan sponsors.

The second stage allows plans that have made progress in becoming more solvent to be relieved of the requirement to obtain member consent in making key decisions, provided they report their progress in achieving savings targets to the Ministry of Finance on a regular basis. As well, solvency deficits can be amortized over a 10-year period instead of the regular five years. ❧

Role of Ontario nurse practitioners to expand

The Ontario government is considering a proposal to allow nurse practitioners to admit and discharge patients from hospitals.

Under the plan, beginning on July 1, 2011, nurse practitioners (NPs) could be able to discharge patients. As of July 1, 2012, they will be able to admit patients to health care facilities. If adopted, Ontario would be the first province to allow NPs to exercise these additional responsibilities.

NPs can already prescribe medications and order diagnostic tests.

"The expansion of nurse practitioners' powers will make hospital admission and discharge processes faster and more efficient, allowing patients to get home sooner," Ontario Premier Dalton McGuinty says.

The United States, New Zealand, Australia and the United Kingdom already allow NPs to admit or discharge patients. ❧

Manitoba legislates flex-time

The Manitoba government has introduced legislation allowing non-unionized employees to negotiate flex-time arrangements with their employers.

Designed to help hourly workers balance family commitments with their work obligations, the proposed amendment to that province's Employment Standards Act would let non-union workers make-up for lost time spent attending to the needs of their children or elderly relatives. It would also allow workers to work four 10-hour days each week instead of five eight-hour days.

The new legislation would allow individual employees to formally negotiate such arrangements directly with their employers. It would also allow employers and employees to exchange flex-time for earned overtime. Under current labour standards, an employer must pay time-and-a-half for any shift lasting longer than eight hours even when a worker has made a request to make up for time lost on another day. It is illegal for an employer to not pay overtime for the longer shift.

Overtime pay will still be required for any weekly work shift that exceeds a total of 40 hours per week. ❧

OSFI orders bigger stress tests for life insurers

The Office of the Superintendent of Financial Institutions (OSFI) has ordered Canada's life insurers to conduct the most stringent tests to date to measure their ability to withstand a severe market correction.

The tests are designed to ensure that banks and insurers have the resources available to remain stable in another financial crisis.

While such tests are conducted annually, the latest requirements are far more complex and wide-ranging than previous stress tests, according to reports published in the April 4, 2011 edition of the *Globe and Mail.*

Besides measuring the impact of continued low interest rates and volatile equity markets, the tests have added additional hypothetical scenarios such as the failure of a major reinsurer. OSFI has told the insurers that they will have to prove that they can react quickly to a major financial crisis.

The new tests have been opposed by many of the country's life insurers as well as the Canadian Life and Health Insurance Association (CLHIA), the industry association representing the nation's life insurers.

Insurers argue that the stress tests require too much information and take too much time to conduct.

According to the CLHIA, the 2011 tests require insurers to produce minimum continuing capital and surplus requirements (MCCSR) projections for 14 different crisis scenarios compared to just two scenarios in 2010. Conducting tests for that many scenarios will take somewhat longer than earlier exercises, it says.

During the 2008-09 financial crisis, the MCCSR ratios of many insurers rose as their equity portfolios contracted. Equity investments are used by insurers to generate funds to pay future life insurance, pension, disability and other obligations. ❧

Today's retirees are doing well financially but will that hold?

The myth of the impoverished senior may be just that — a myth — a Statistics Canada study suggests.

In its review of more than 3,700 responses from people age 55 and older, the statistics gathering agency discovered some surprising facts. Among them:

- the medium household income of Canadian retirees is $42,000;
- the medium net worth of retirees amounts to $295,000 per household;
- two-thirds of retirees report being debt-free;
- the medium debt load of all retirees is $19,000;
- five per cent of retirees have debts of more than $100,000;
- 80 per cent say that their current standard of living is equal to or better than they assumed it would be when they retired; and
- 86 per cent report that their income was sufficient to pay their bills.

After several years of warnings about the solvency of the country's pension plan, the Statistics Canada data represents a strong endorsement of today's pension system. However, the agency warns that it *"only represents retirement as it has been, not what it will be like in the next 15 years as the baby boomer generation comes to the end of the traditional working age."*

Reinforcing possible concerns about future retirement patterns, the agency's study noted that Canadians over age 55 who are still working are carrying much higher debt loads than those who have already retired did when they were still in the workforce.

"The issue is not whether or not people are going to be able to retire, the issue is that they will not be able to afford the lifestyle they would like," says CIBC economist Benjamin Tal.

The result of the higher debt loads among those on the cusp of retirement will be the delay of retirement among baby boomers, Mr. Tal predicts.

"The surprise will be how small a number actually choose to retire," he said. *"They who cannot afford to retire will simply continue to work and the news is that employers will have to accommodate that."* ❧

Retired report more chronic health problems

Retirement is bad for your health.

According to *Retirement, health and employment among those 55 plus* published in Statistics Canada's spring 2011 edition of *Perspectives on Labour and Income,* the number of chronic health conditions reported among retired individuals was substantially higher than among the employed and semi-retired, even after statistical adjustments were made for age differences.

Based on the comparison study of workers aged 55 to 84 against their retired or semi-retired counterparts in the same age category, more than one half of retired individuals had three or more chronic health problems compared to just over one-quarter of those still in the workforce.

The difference is even greater among retired women, with 60 per cent having three of more chronic health conditions compared to 49 per cent of men.

High blood pressure and arthritis were most common conditions reported among both retired men and women. However, incidence levels among women touched the 50 per cent level for both conditions.

Retirement may also have a negative affect on an individual's *perception* of their health, the Statistics Canada study suggests.

"Almost one in four retirees (24 per cent) perceived their overall health as fair or poor compared with 11 per cent for the partially retired," the report noted. *"And, 11 per cent of retirees expressed life dissatisfaction versus seven per cent for the partially retired."*

Retirees are also likely to be less physically active than their counterparts in the workforce. In total, 37 per cent of retirees were considered to be less active compared to 11 per cent of those in the workforce, the study says.

"The lower level of physical activity of the retired is in line with other indicators of relatively poor health for this group," Statistics Canada said.

Retirees also tend to have less social and emotional support than those still in the workforce, which may contribute to their reduced health status.

For plan sponsors with benefits plans for retired employees or members, the Statistics Canada report could act as a warning to expect a far greater number of claims from retired individuals than among those still at work, even when age, income and other demographic factors among the two groups are similar.

"The results indicate that employers and policy makers cannot treat older workers as a homogenous group," the report stresses. ❧

Health status indicators, by percentage, age 55 to 84

Health status	Never retired	Partially retired	Fully retired
3+ chronic conditions	26.4%	34.4%	52.5%
5+ chronic conditions	6.3	8.1	21.4
Negative self-perceived health	11.6	10.5	23.6
Negative self-perceived mental health	3.8	3.4	6.0
Life dissatisfaction	8.4	6.9	10.8
Memory/cognition problems	20.0	20.8	28.4
Hearing problems	1.7	3.2	6.0
Walking problems	1.6	2.4	12.0
Pain	22.5	22.3	29.9

(From: Retirement, health and employment among those 55-plus, Statistics Canada, Perspectives on Labour and Income, Spring 2011)

Most prevalent chronic conditions among population age 55 to 84 (%)

	Employed			Retired		
Condition	All	Men	Women	All	Men	Women
High blood pressure	32%	33%	31%	48%	46%	50%
Arthritis	27	21	34	41	34	48
Back problems	24	23	24	29	27	30
Diabetes	11	13	8	17	21	15
Heart disease	9	12	6	20	26	16
Thyroid condition	9	4	16	14	7	16
Osteoporosis	8	2	15	17	5	27
Migraines	8	5	12	5	3	7
Cataracts	7	6	7	21	17	23
Asthma	6	5	8	9	7	10

(From: Retirement, health and employment among those 55-plus, Statistics Canada, Perspectives on Labour and Income, Spring 2011)

Fast facts

- Effective March 15, 2011, pharmacists in Ontario may refill existing prescriptions under certain conditions without authorization from the prescribing practitioner. The new rules do not apply to narcotics or controlled drugs.
- Effective May 1, 2011, the maximum allowable dispensing fee for pharmacists in Saskatchewan increased from $9.43 to $9.85 per prescription.
- Approximately 10 per cent of all employees have a substance problem, according to research conducted by University of British Columbia Associate Clinical Professor Ray Baker. Substance abuse is a significant cause of short and long-term disability claims and may be behind many stress, depression and related claims, he suggests.
- The British government has passed legislation eliminating mandatory retirement at age 65. The new law becomes effective on October 1, 2011.
- One in three Dutch pension plans is considering liquidation, according to a KPMG survey of 100 pension plans in that country. The survey found that 20 plans consider that liquidation within two years as "very likely." Holland has the largest proportion of pension assets to gross domestic product in the developed world.
- The Investment Industry Association of Canada has called on the federal government to increase contribution limits on registered retirement savings plans. It also urges the government to loosen rules to make it easier for retirees to access RRIF funds.
- Average non-farm weekly payroll earnings of Canadian workers according to Statistics Canada: $870.33 or, $45,257.16 per year. Average number of hours worked per week: 33.2.
- Over the next 50 years, France and Britain are likely to replace Germany as the leading economies of the European Union, according to Eurostat, the statistics agency of the EU. With average fertility rates of 2.0 and 1.96 children per couple respectively, the French and British population bases are likely to remain relatively stable during that time. Meanwhile, at 1.36 children per couple, the German population will likely decrease by as much as one-third by 2061, leaving fewer people to pay for pensions, health care and other social services. The result will be a gradual erosion of the relative strength of the German economy, Eurostat predicts. ❧

Leading causes of death in Canada

Cancer and heart disease remain the top two causes of death among Canadians, according to Statistics Canada. The top 10 causes of death by percentage are:

Cause of death	Percentage of deaths in 2009
1. Cancer	29.6%
2. Heart disease	21.5
3. Stroke	5.9
4. Chronic respiratory diseases	4.5
5. Accidents	4.2
6. Diabetes	3.1
7. Alzheimer's disease	2.5
8. Influenza & pneumonia	2.3
9. Kidney disease	1.6
10. Suicide	1.5

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