COUGHLIN
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COURIER

AT A GLANCE ...

COUGHLIN & ASSOCIATES LTD.

Canada's two-tiered pension system

The Canadian Federation of Independent Business (CFIB) says Canada is moving quickly towards a two-tiered retirement system.

According to a paper released by CFIB President Catherine Swift, there is a growing gap between the *haves* and the *have nots* in pension entitlements, with the members of publicly funded public sector pension plans enjoying levels of financial security and stability that those with private sector pensions can only dream about.

In its paper *Canada's Pension Predicament: The widening gap between public and private sector retirement trends and pension plans,* the CFIB says that of the 4.5 million Canadians covered by defined benefit (DB) pension plans, 2.4 million, or 53 per cent, are members of the public sector. When it comes to defined contribution (DC) pension plans, the situation is reversed. Of the 877,000 workers with such coverage, only 147,000, or 17 per cent, are public sector employees.

Defined benefit pensions provide stable pension payments based on a percentage of the employee's final average earnings at retirement and years of service. Since payments are guaranteed and projected years in advance, defined benefit pensions are more complicated and costly than defined contribution plans, which do not have a pre-set solvency or income payout formula. In addition, many public sector defined benefit plans offer pension indexing and cost of living adjustments to offset the effects of inflation on pensioners' incomes.

Over the past five years, a number of large private sector organizations have frozen enrolment in their defined benefit plans, or converted to defined contribution or group registered retirement savings plans (RRSPs), to contain costs. Most do not have the resources or commitment to meet the stringent long-term solvency requirements associated with defined benefit plans.

"Almost all pension plans in the public sector are DB plans, while in the private sector, DB plans seem to be disappearing," the CFIB report says. *"Ultimately, this means taxpayers are heavily subsidizing public sector pension plans. Meanwhile, less expensive alternatives, such as DC plans, are becoming the norm in the private sector."*

The business group asserts that this is unfair and is fostering a two-tier pension environment.

"It is frustrating and unfair for taxpayers that have a less generous pension plan, or no pension plan, to have to pay high taxes to subsidize the very generous public sector pension plans," it says. *"Additionally, the financial risks associated with DB plans are greater for employers in the private sector than in the public sector because, in the private sector, the government does not guarantee pension plans."*

With private sector organizations retreating rapidly from DB plans while public sector groups receive generous pensions backed by government solvency guarantees, the pension playing field is no longer level, according to the CFIB report.

It adds: *"When it comes to employee compensation, the growing trend away from DB plans renders the private sector on an uneven playing field. This poses yet another barrier to the private sector in terms of competitiveness and the ability to attract and retain new labour. Moreover…this structural issue is starting to create labour market distortions or a two-tier system between the public and private sector."*

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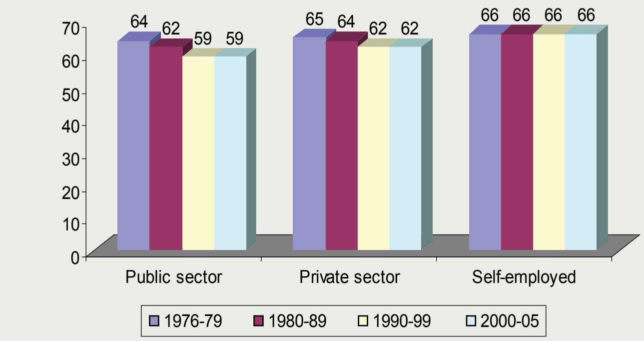
◀ *Canada's two-tiered pension system continued from page 1*

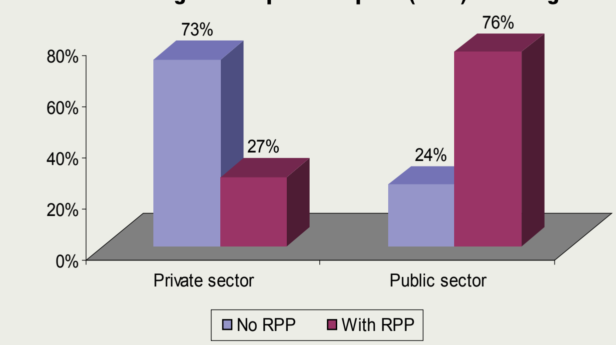
The organization's report recommends that taxpayers not be the ultimate *"default go-to-mechanism"* for any pension, whether public or private. As well, it suggests that pension surpluses should not be used to improve plan benefits. Instead, they should be channelled to improving plan stability and spending restraint. It also calls for more transparency, accountability and consistency in the accounting and actuarial practices for evaluating pension plans. ❧

CANADIAN PENSION FACTS

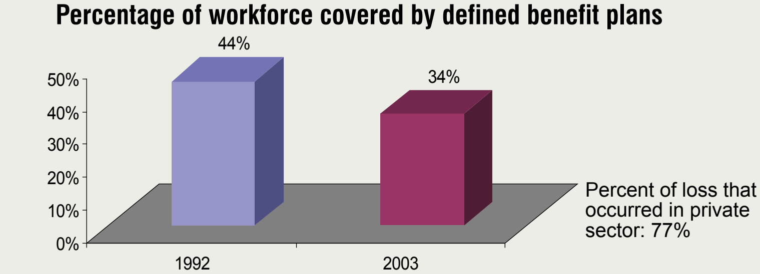
Average age of retirement



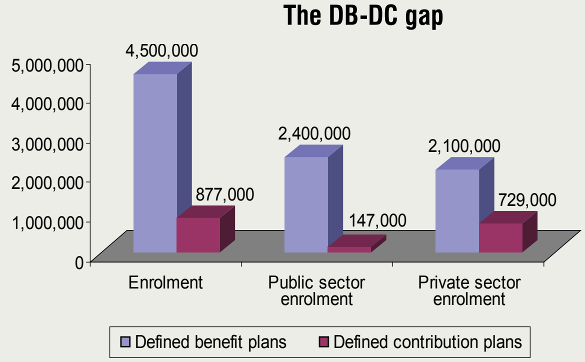
Registered pension plan (RPP) coverage



Percentage of workforce covered by defined benefit plans



The DB-DC gap



(**Source:** *Canada's Pension Predicament: The widening gap between public and private sector retirement trends and pension plans,* CFIB Research, January 2007)

Ontario to review out-of-country coverage

The Ontario government has announced that it will review its out-of-country health coverage provided under the Ontario Health Insurance Plan (OHIP).

The review follows a series of embarrassing incidents where individuals had to seek medical treatment in other countries to avoid lengthy wait times only to have reimbursements denied under OHIP.

Some examples:

- a cancer patient facing a 14-week delay for kidney surgery paid $5,000 for an operation in Serbia;
- a woman had to pay $76,000 for chemotherapy in Buffalo, New York, only to have OHIP consider the treatment *"experimental";*
- facing a two-and-a-half year wait for hip surgery, a man paid $7,000 for surgical services in India; and
- an Ontario resident with less than six months to live paid over $450,000 for a liver transplant in the UK. His out-of-country claim was denied because one procedure in the operation was considered experimental in Ontario.

"The rules for seeking out-of-country treatment are so complex it's like handing patients a Rubik's cube," says Ontario Ombudsman André Marin.

For plan sponsors, the trend to use out-of-country services is worth watching. As the demand for complex surgeries and medical treatments increase with the aging population, more and more people are seeking alternative treatments in other jurisdictions. This could result in additional out-of-country medical claims as people try to cover some of these expenses through their group plans. ❧

Seniors' day care: Calgary's latest employee benefit

Calgarians are lining up for the latest employee benefit: eldercare.

A group of five companies are offering free or subsidized day care facilities for seniors in an effort to help their employees cope with eldercare responsibilities.

The program offers day care facilities to elderly parents of the employees of Enbridge, BP Canada, Deloitte Inc., Nexen Inc. and the Royal Bank. Under the plan, employees simply drop their parents off at the seniors' day care centre on their way to work and pick them up afterward, similar to children's day care arrangements. The facility is operated by Kids and Company, a national employee childcare benefits provider.

While there, visiting seniors can watch movies, work with arts and crafts, take fitness programs and participate in various social groups while under the care of trained professionals.

The new benefit is designed to help those in the *"sandwich generation"* who have to attend to the needs of ill or elderly parents as well as young children.

Demand for eldercare is *"huge"* says Kids and Company Vice-President Victoria Sopik. *"We could have launched with 30 companies instead of five. While not all workers have children, they all have parents and many will eventually take on responsibility for their care."*

With more people living longer lives, there is increasing demand for geriatric care services. According to Statistics Canada, 1.2 million workers across the country provide care to 2.3 million seniors with some form of physical limitation or disability. As many as 21 per cent of the workers surveyed by the agency say that the demands of providing care and support to their aging parents are enough to force them to consider early retirement.

For the *"sandwich generation"*, the additional responsibilities of providing child care often result in stress and increased use of employee assistance plan (EAP) and other extended health care services. For employers facing a growing shortage of skilled labour, the eldercare plan provides a new and valuable employee retention tool.

"It's a huge stress reliever," says Nexen Benefits Manager Mike Kosenic. ❧

Quebec lifts freeze on prescription drug prices

The Quebec government has lifted its decade-long price freeze on prescription drugs.

Health Minister Philippe Couillard announced in January that the 1994 price freeze will be lifted to allow drug prices to adjust to inflation. However, he cautioned that price hikes will likely be tempered by competition between drug manufacturers and the pending three-year agreement between the province and the pharmaceutical companies limiting to the rate of inflation increases in the price of drugs listed in the *Régie de l'assurance maladie* formulary. The formulary is used by the Quebec drug insurance plan to cover 3.2 million residents.

According to the Quebec Association of Owner Pharmacists, the years of price freezes have resulted in some medications not being available in the province. However, the Association also warned that some drugs could experience substantial price increases if the province and drug manufacturers cannot agree on new pricing levels. ❧

Dental fee increases for 2007

Following are the dental fee increases for 2007 by province, as published by their respective provincial dental associations. ❧

Province	Increase %
British Columbia	3.19*
Alberta	4.76**
Saskatchewan	6.23
Manitoba	3.79***
Ontario	3.60
Quebec	3.10
New Brunswick	3.00
Prince Edward Island	2.80
Nova Scotia	3.46
Newfoundland & Labrador	3.00
Yukon, Northwest Territories & Nunavut	TBA in April

*Charges vary considerably by fee code. Quoted increase represents an overall average.

**Overall average based on CLHIA estimate.

***Areas above the 53rd parallel will experience fee increases of five to 10 per cent above those published for southern Manitoba.

Saskatchewan courts debate marital definitions

Spousal definitions continue to be a source of debate — and litigation.

The Saskatchewan Court of Queen's Bench has ruled that the spousal definitions used in that province's Pensions Benefits Act violate the Canadian Charter of Rights and Freedoms.

The ruling results from a case where a City of Regina employee failed to get a legal divorce on the break-up of his marriage and later lived in a common-law relationship with another woman for 25 years until his death. Despite naming his common-law spouse as beneficiary, the plan denied her benefits.

In Saskatchewan, Quebec and Nova Scotia, priority is given to legally married spouses over common-law spouses. ❧

Critical illness insurance: essential to RRSP planning

Even if you carefully save for your retirement and make regular contributions to a registered retirement savings plan (RRSP), forgetting just one piece of a financial plan could result in the loss of savings growth and a comfortable retirement.

Here's an example:

- Jim and Jane are a couple in their late 30s with a young family. They have a house, mortgage, various loans and a nice lifestyle. Together, they have accumulated over $150,000 in their RRSPs. They also have life insurance to cover their family's financial needs in the event of death of either of them.
- Recently, Jane was diagnosed with breast cancer. Her treatment was aggressive and required her to be off work for at least eight months. The result: Jim became the family's primary wage earner and caregiver. The financial strain was immediate. To meet their obligations and pay for additional cancer treatments not covered by the provincial health insurance plan, the couple decided to use their RRSP funds.
- The result was a shock. The $150,000 was subject to taxation, at a marginal rate of 46 per cent. In the end, the couple was left with only $81,000, far from what they needed to pay their bills. Plus, their retirement fund — and its future growth potential — was lost. In dollar terms, their loss amounts to hundreds of thousands of dollars.*

Critical illness insurance can make the difference

The right insurance coverage can protect your savings and your future retirement lifestyle. Coughlin's Individual Financial Services department can develop a critical illness insurance plan to cover up to 23 critical illnesses and life-altering conditions, including heart attack and cancer. Plus, by adding a return of premiums rider to your plan, you could receive all of your premiums back if you do not incur a critical illness.

For more information on critical illness insurance, contact Individual Financial Services Consultant Jackie Moulton at: jmoulton@coughlin.ca

Or phone: 613-231-2266, Ext. 251

Toll-free: 1-888-613-1234, Ext. 251

*Example and illustration courtesy of the Empire Life Insurance Company ❧

Quebec drug plan pooling requirements

If you are a plan sponsor not based in Quebec but with Quebec-based members, you may be required to register with the Quebec Drug Insurance Pooling Corporation to ensure your Quebec members receive drug coverage under that province's drug insurance plan.

An important part of this process is determining the insurance risk pool that applies to your organization. The following is a very brief summary of the pooling methodology used by the Corporation:

- The provincial plan operates by pooling like-sized groups so that risk factors, reimbursements and costs can be applied appropriately across industry groups.
- Insured groups of less than 250 certificates (a certificate can include employees and dependants) must participate in the pool; groups operating on an ASO basis must participate when they have 125 or fewer certificates.
- Single employers are assessed by the number of certificate holders who are *"undivided by risk"*. For example: If an employer's plan has 130 employees, with 30 based in Quebec, it would be assigned to the pool for employers in the 125-249 employee size band. However, if the above group operated with two separate divisions with 30 Quebec employees in one division and 100 non-Quebec employees in the second division, it would be pooled as a 30-person group.
- Multi-employer groups operate on the same principle. However, if members of a multi-employer plan are divided by coverage (for example, one sub-group has benefits that are superior to the other groups in the plan), then they must be pooled as two separate groups since the risk factors in the group are *"divided"*.
- Once a year, a group must provide a certificate of compliance that confirms their size and their claims activity for the prior year. When complete, this data must be sent to the offices of the Quebec Drug Insurance Pooling Corporation.

For more information on the Quebec Drug Insurance Pooling Corporation's pooling system, visit www.pooling.ca ❧

Mandatory retirement law sparks more questions than answers

On December 12, 2006, the amendment to the Ontario Human Rights Act (OHRA) eliminating mandatory retirement at age 65 became law.

While the new legislation enshrined the right to work past age 65, it also raised a number of questions regarding benefits entitlements and employment rights. The following is a summary of the feedback on this issue that Coughlin & Associates Ltd. has encountered so far.

It's discrimination. According to the new law, it is now considered age discrimination to prevent employees from working past age 65, unless it is a *bona fide* occupational requirement that employees retire at that age. The *bona fide* requirement refers to those whose health or occupational safety, or the safety of others, would be endangered by their continued employment. Generally, this restriction would apply to emergency services personnel, such as police or fire protection services, and those working in physically demanding jobs.

***"Normal retirement date"* remains unchanged.** The terms of the province's Pensions Benefits Act were not changed with the passage of the mandatory retirement amendment. Pension plans may continue to use age 65, or any other age, as the date on which a member may receive an unreduced pension benefit. Requirements to work a minimum number of years or the establishment of benefit payout limits are still allowed.

Early retirement still allowed. Employers are still allowed to offer voluntary early retirement to their employees.

Age limits on benefits remain. The Human Rights Code still permits age limitations on group life insurance, disability and extended health and dental coverages. As a result, it is still quite legal for plan sponsors to reduce or discontinue these benefits at a specified age such as age 65.

However, contradictions will occur. Under the new rules, it is quite possible for an employee aged 64 to be fully covered by a plan sponsor's benefit plan while his or her 65-year-old colleague is no longer covered by the plan.

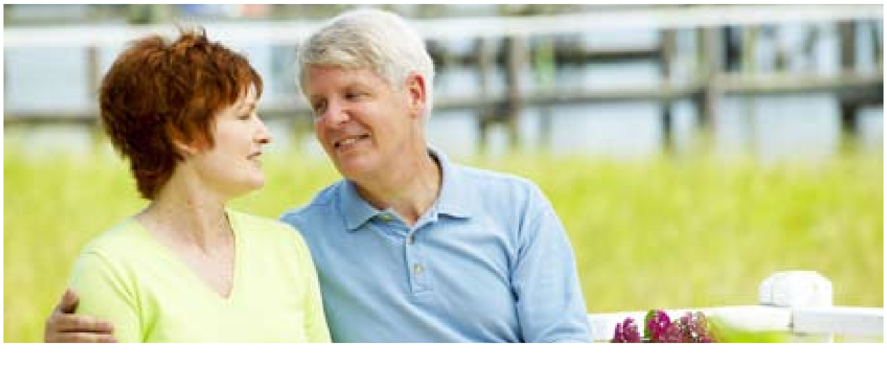
In time, this could result in challenges or litigation under the *Equal Pay for Equal Work* provisions listed under Part XII of the Employment Standards Act. While those provisions deal largely with sexual discrimination issues, the introduction of age discrimination into the human rights code could open these provisions to debate or review.

Workplace Safety and Insurance Benefits (WSIB). No changes are anticipated. As with group insurance and benefits arrangements, WSIB benefit terminations at 65 will continue.

Ontario Drug Benefit Plan (ODB). The elimination of mandatory retirement does not prevent workers aged 65-plus from accessing benefits under the Ontario Drug Benefit Plan. However, the new law did not specify whether the ODB or an employer's plan would be first payer at claims time. However, interpretations received to date indicate that the ODB will be the first payer.

More information will be provided as it becomes available.

Termination/severance benefits.
What notice does an employer give to a 75-year-old employee with 50 years of service? It's a legitimate question that employers will face sooner or later. Court settlements have tended to be generous to terminated older workers, arguing that opportunities for them to find alternative employment will be limited. How much should be awarded to those age 65 or older will likely have to be clarified through court rulings. ❧



Be healthy. Eat chocolate

If you want to reduce your chances of heart disease, here's one thing you can do: eat chocolate.

A study of blood platelet activity by John Hopkins University indicates that eating as little as two tablespoons of dark chocolate per day can reduce the risk of dying from a heart attack by almost half.

According to the study, flavonoids in chocolate have a similar effect as Aspirin in reducing platelet clotting and activity. They can lower blood pressure and significantly delay or reduce blood clotting. In other tests, the study suggested that, on average, chocolate eaters had significantly lower levels of waste products from platelet activity in their blood and urine than non-eaters.

"These results bring home the point that a modest dietary practice can have a huge impact on blood and on the health of people at a mildly elevated risk of heart disease," the study observed.

The study noted that results could only be observed in eaters of dark chocolate. Milk chocolates with excess butter, cream and sugar should be avoided.

So, do your heart a favour: reach for that Easter treat you've been eyeing. But don't try to claim it on your extended health plan. ❧

Fast facts

- Almost a half million Canadians suffer from depression, according to data collected by Statistics Canada. And, most of those who experience it also say it interferes with their work.

  The government data collection agency says that eight of 10 workers experience depression enough to interfere with their normal work routine. One in five workers report a severe degree of interference. The agency also reported that depressed workers average 32 days a year when they are unable to work or carry out normal work activities.

- The US Supreme Court has denied application by a group representing 250,000 former IBM workers to review that company's pension plan. The workers' group alleges that the company's 1999 switch from a defined benefit plan to a cash balance plan (similar to a group RRSP) discriminated against older workers since younger workers could accumulate more money more quickly. The workers' position was initially accepted by the US Federal Court but was overturned by the Court of Appeal. The Supreme Court gave no reason for its denial.

- The world's pension assets grew by nine per cent in 2005 to $18.6 trillion. The United States, Japan and Britain account for 80 per cent of those funds.

- If you're retired, chances are you're happy. The latest data published by the Fidelity Canadian Retirement Survey indicates that 74 per cent of those who are retired are happy and found the transition to retired life easier than expected. The most satisfied could be found in Atlantic Canada, where 81 per cent were happy in retirement. These data are in contrast to the views of working Canadians. Only 54 per cent of those still working believe they will be satisfied in retirement.

- Percentage of men who seek employment assistant program (EAP) services for relationship troubles, according to Shepell. fgi: 23 per cent. Percentage of women using EAP services for such problems: 18 per cent.

- A Scotiabank survey says that 40 per cent of Canadians who contribute to registered retirement savings plans (RRSPs) end up withdrawing money from those plans. According to the bank, withdrawals from retirement plans average $18,000 each. Where does it go? A total of 37 per cent used their withdrawals to build or buy a house; 24 per cent used them to pay down debt; while 20 per cent used the money to cover day-to-day expenses. ❧

Weather can be a real pain

If your organization has members that suffer from migraine headaches, you can expect higher absences and potentially more health and drug claims as temperatures fluctuate.

According to studies published by the University of Calgary, rapid temperature changes can trigger migraines, which are characterized by severe pain that can last for days, nausea, vomiting, sensitivity to light and sound, and visual impairment.

One in five Canadians suffer from such headaches.

While factors such as stress, diet, food sensitivities and lack of sleep can also cause the attacks, severe weather changes can often be the trigger that determines whether or not the migraine sufferer will experience its symptoms.

"They're like human barometers," says Environment Canada climatologist David Phillips in a report published in the Globe and Mail. *"The change not only in pressure but temperature, humidity, wind, wind direction and air ions drive them up the wall."*

Migraines are caused when blood vessels in the brain expand and press against nerves. ❧

PPN update

The **Wal-Mart Pharmacy**, located at 114 Lombard Street in Smiths Falls, has joined the Coughlin & Associates Ltd. Preferred Provider Network. Their telephone number is 613-283-4429.

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Designer: Victor Lima