

KRIEGER + associates

43 Front Street East, Suite 300

Toronto, Ontario, Canada M5E 1B3

T 416.363.1221

F 416.363.0677

E communik@kriegerandassociates.com

www.communik.ca

To join CommuniK's free mailing list, visit our website, click on "CommuniK" and subscribe!

CommuniK is written, designed and produced by Team Krieger. **We want to know what you think!** Please email us your benefits, pensions and communications questions or suggestions.

The content of this newsletter is provided to you for your information only. Though Krieger + Associates has made every effort to ensure the accuracy of CommuniK, it is accepted by the reader on the condition that any error or omission shall not be made the basis for any claim, demand or cause for action. No reader of this newsletter should act or refrain from acting without seeking the appropriate professional advice.

Would you like to email this document to someone?

Logon to www.communik.ca

IN THIS ISSUE

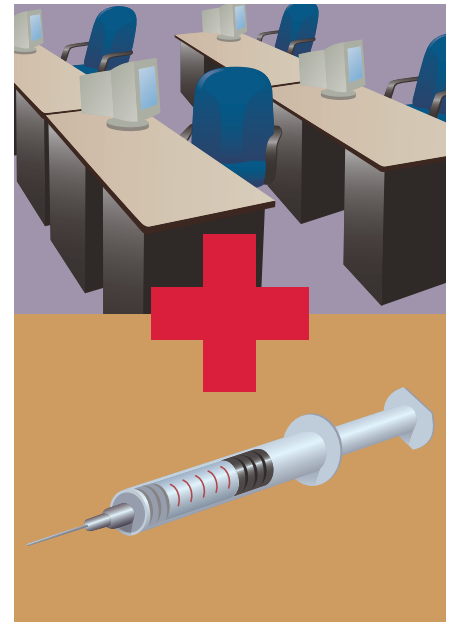
- ▶ **Avoid Costly Beneficiary Mistakes**
- ▶ **Mandatory Retirement: Times Have Changed**
- ▶ **CAP Guidelines**
- ▶ **To Insure or Not To Insure**
- ▶ **Healthcare as Canadians See It**

Preparing for a Pandemic

Canada is on a high alert for a Pandemic due to the SARS outbreak in 2003 and the recent developments in the bird flu. Governments continue to prepare both nationally and regionally to be able to respond to potential outbreaks.

The avian flu virus does not spread easily or rapidly among humans. However, flu viruses have the capacity to mix with one another and morph into a new strain. This is one of the reasons that health officials keep such a close watch on outbreaks of avian flu. If someone with human influenza also becomes infected with avian influenza, there is a *chance* that the viruses could mingle and turn into a new virus that spreads easily from person to person. There is no pandemic influenza anywhere in the world at this time. However, there were three influenza pandemics in the last century and scientists recognize that another is inevitable.

It is estimated that up to half of all Canadians will get sick if a pandemic arises. Up to two per cent of those who fall ill may need to be hospitalized. If a pandemic does strike, no one would have immunity to the new virus, and it would take four to six months to develop a new vaccine. Typically, a pandemic is expected to attack in waves of six to 12 weeks, three to nine months apart. The good news though, is that in comparison to the Spanish flu of 1918 we now have better technology and tools



to deal with the potential damage that a pandemic could cause.

INSURER'S RESPONSE

Insurers have stated that they are preparing to deal with increased claims of plan members in the case of a pandemic. They plan to include the avian flu under insured coverage for short-term disability (STD) and/or Life benefits. At the time of this article, we were not able to get definitive answers about the potential financial impact a pandemic would have on premiums considering the current benefits, rates, demographics, size and financial arrangements of each group vary. We have been assured that insurers' strong capital and surplus levels will be able to withstand estimated claims and other losses, and will be able to manage their business going forward.

One major insurer we asked about

the pandemic prefaced each of their answers with “it is difficult to detail the exact approach we may take... .” Although most of their responses indicated that in the case of a pandemic they would not alter the way they administer claims from the terms of their contracts with plan sponsors. For instance, there would still be a requirement of medical information to support Long Term Disability claims, even if a patient is unable to obtain this documentation due to illness caused by a pandemic. Also, this insurer would consider plan members to be unqualified for STD coverage if they are away from work due to quarantine or caring for an ill family member (they wouldn’t meet the definition of being “totally disabled”).

EMPLOYERS’ ROLE

Plan sponsors should be aware of the disruption a pandemic may create and prepare accordingly. To minimize the impact to their business, a business continuity plan should be implemented. The following will help to enable critical services or

Need More Info?

For more information contact:

The Public Health Agency of Canada:

- Avian Influenza Web site – www.phac-aspc.gc.ca/influenza/avian_e.html
- Immunization and Respiratory Infections Division – www.phac-aspc.gc.ca/im/index.html

You can also find detailed information about avian flu on the following sites:

The Public Health Agency of Canada:

- Flu Watch – www.phac-aspc.gc.ca/fluwatch/index.html
- Travel Medicine Program – www.phac-aspc.gc.ca/tmp-pmv/index.html
- Center for Infectious Disease Prevention and Control – www.phac-aspc.gc.ca/centres_e.html#cidpc

The Canadian Food Inspection Agency –

www.inspection.gc.ca/english/anima/heasan/disemala/avflu/avflufse.shtml

The World Health Organization (WHO) –

www.who.int/csr/disease/influenza/en/

The It’s Your Health article on Flu –

www.hc-sc.gc.ca/iyh-vsv/diseases-maladies/flu-grippe_e.html

products to be uninterrupted:

- communications strategies that promote prevention/education about how infectious diseases can spread;
- definitions of critical roles in the organization;
- revisions to travel expectation policies;
- understand contracts with insurer regarding terms of STD and LTD claims;
- confirm financial arrangements reflect current level of risk tolerance;
- collaborating with federal, provincial, and local health agencies; and
- changes to sick-leave and work-from-home policies.

For a more detailed check-list to help protect your business and its employees, go to our website:

www.kriegerandassociates.com/2006/pandemic_list.asp 

Avoid Costly Beneficiary Mistakes

A beneficiary designation is an important component of estate planning and can be crucial should a catastrophe strike. In the event of a Life claim, if an insurer has a valid beneficiary designation, proceeds can be paid out in as little as 24 hours.

Under current tax rules, life insurance proceeds paid to a designated beneficiary may not be taxed; however, life insurance paid to an estate will be.

In today’s rapidly changing world, it is important that beneficiary information be kept current. Out-of-date beneficiary designations may result in delays at a sensitive time. A valid beneficiary designation must be an original and it must be signed and dated. For a beneficiary designation to exist in a will, the will must specify the source of the pro-

ceeds. For example, a policy number should be given, or it will not be a valid designation for a payout.

Beneficiaries may be changed at any time unless the employee designates an “irrevocable” beneficiary. (For residents of Quebec, when a spouse is designated as a beneficiary, it is automatically


Life insurance paid to an ESTATE will be taxed.

irrevocable, unless the employee specifies otherwise.)

Multiple beneficiaries can be designated with shares for each if the employee wishes. If the proceeds are to be divided equally among all named beneficiaries, no allocation is required. If allocations are noted on the beneficiary designation, these allocations rule even if a designated beneficiary has passed away. Shares of the proceeds that have not been designated are paid

to the estate.

Special considerations apply when designating a minor child as a beneficiary. Although it is strongly recommended that a beneficiary is over the age of 18, trust agreements can allow the payment of proceeds to minors. Otherwise, by law, benefits cannot be paid to a minor beneficiary. Legal counsel should be consulted before designating a minor as a beneficiary.

Under many benefit plans, the beneficiary an employee designates under Basic Life is automatically designated as the beneficiary under the Accidental Death & Dismemberment and Business Travel Accident plans. If these plans are with different carriers and your plan is insurer billed, you should ensure your enrollment form and beneficiary designation form allow for all insurers to access this information. 

Mandatory Retirement: Times Have Changed

As of December 12, 2006 employees can no longer be forced to retire at the age of 65.

By this time the one-year transition period for the *Ending Mandatory Retirement Statute Law Amendment Act* will end. This legislation was imposed to protect employees from discrimination based on their age. What does this mean for employers?

- Employers should understand the provisions of the act and consider how the new law will be implemented in the workplace.
- Adapt HR policies and practices to comply with the law.
- Discuss with your unions any changes that might be required to their collective agreements.
- The provision of benefits (disability, life insurance, and health) to workers aged 65 and older will continue to be at the employer's discretion.



- Employers can continue to offer early retirement packages (including Collective Agreement situations). Insurance companies are not required to adjust their income replacement benefits to reflect the needs of an older workforce as legislation allows discrimination where risk exists. Insurance providers have not adjusted their products' provisions and pricing to accommodate unspecified termination ages. Therefore, employees who choose to work beyond age 65 may find

their coverage limited to Life, Health, and Dental Insurance.

National organizations will be impacted due to the conflicts between the Provincial and Federal laws; however, as mandatory retirement has been abolished in most provinces, taking a national approach could eliminate conflict.

Employers should ask their benefits consultant about modifying their benefits plans to ensure that termination ages are extended as far as possible. When a benefit is provided until retirement instead of a defined age, insurance carriers will not rate the risk until there are active employees over the age of 65. To enhance understanding of the possible impacts of this change in legislation, it is important to communicate to employees who may decide to work beyond 65.

For more information, visit <http://www.labour.gov.on.ca>, or for inquiries, call the toll-free number 1-866-400-8355. **K**

CAP Guidelines

Capital Accumulation Plans (CAPs) are programs that allow plan members to accumulate assets in a segregated account in their name while allowing members choice in how these assets are invested.

Common programs include Group RRSPs and Defined Contribution Registered Pension Plans. These programs are often sponsored by employers for the benefit of their employees. Most often, employers make a contribution to employees' individual accounts in addition to taking responsibility for the operation of the program.

On May 28, 2004 the Joint Forum of Financial Market Regulators (the "Joint Forum") issued its Guidelines

for Capital Accumulation Plans. These guidelines are referred to across the industry as the "CAP Guidelines".

While the CAP Guidelines do not override the legislative requirements of operating a CAP, they have quickly become a minimum standard for the governance of CAPs in Canada. Sponsors were expected to follow the CAP Guidelines as of December 31, 2005.

In order to discharge its duties, a CAP sponsor is responsible for three key areas:

- Plan setup and ongoing administration;
- Investment menu selection and the monitoring of investment performance; and
- Education of plan members.

Each of these areas requires careful and competent communication with members. No longer are CAPs

viewed as "entirely the responsibility of members."

Leading providers of recordkeeping to CAP sponsors have invested significantly in their computer systems and communication materials. Although sponsors are tempted to rely upon their recordkeeper to ensure that their CAP is properly governed, this is not possible.

The sponsor retains the ultimate responsibility for monitoring the performance of third-party suppliers and for making the final decisions with respect to the program.

Every organization that sponsors a CAP for its employees should establish a sound governance process which will depend on the size of the program(s) under management, the internal resources, the expertise, and the philosophies of the organization towards corporate governance. **K**

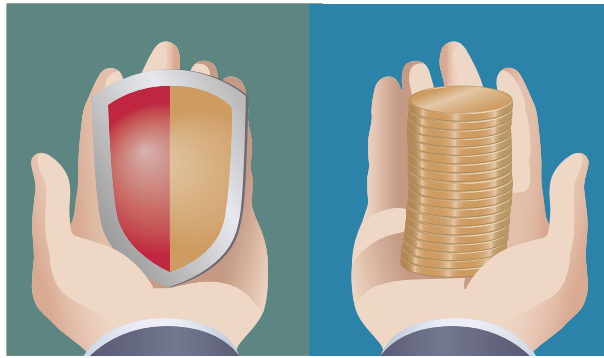
To Insure or Not To Insure, That is the Question

The shift of claims costs from the public sector to private plans isn't news anymore. Neither is the preoccupation of plan sponsors to control the costs of benefits plans.

As a solution, employers are looking at two cost containing measures: Administrative Services Only (ASO) arrangements and Healthcare Spending Accounts (HSA). Neither option, however, should be mistaken as insured coverage.

ASO

In ASO arrangements, insurance companies often administer the plan and adjudicate claims, but they do not guarantee benefits or costs. Savings are generated from the absence of risk charges (between 0.5 per cent and 2 per cent) and the lack of reserves collected by the insurance carrier. With ASO, reserves can be brought in-house and reinvested into the business. Another benefit is the increased flexibility of ASO plans, as the employer can alter the coverage without negotiating with the insurer (provided the plan meets the Private Health Services Plan limits in the Income Tax Act).



These arrangements are appropriate for smaller, frequent, and predictable claims such as Health, Dental, and STD coverages (note that ASO LTD is illegal in Saskatchewan).

However, assuming the risk of an ASO plan can potentially negate the plan's original intent to provide savings. In the case of discrepancies, insurance companies do not offer plan sponsors any financial protection against employee litigation. Also, employers are not required to set aside adequate reserves through a trust company, which could pose problems in the event of bankruptcy. If the plan is terminated, individuals depending on disability payments are exposed to financial uncertainty.

HSA

For this component of a plan, the

employer puts aside a set amount of money annually for each employee, which allows for predictable budgets. The employee can choose how to use the money from a predetermined list of services. HSAs are generally received

positively by plan members.

HSAs work well for companies with diverse needs for health benefits, and have tax advantages for both the employer and employees. However, employees are not financially protected in the case of unexpected claims if their HSA is not accompanied by an insured benefit.

Employers should keep in mind that the importance of benefits is rated highly by employees. In fact, "63 per cent would rather have their health benefit plan instead of \$15,000 cash per year."

So for both employees' appreciation for the protection of benefits coverage, as well as the risk that non-insured coverage can expose plan sponsors to, it is quite clear that insured coverage should not be replaced entirely in the future. **K**

Healthcare as Canadians See It

Every year, **sanofi-aventis** conducts a survey of benefits plan members across Canada regarding healthcare. Some highlights:

- + This year, the report states that more than ever, respondents (74%) felt that the Canadian healthcare system is no longer "excellent/very good".
- + When asked whether they would be willing to pay a small fee (\$5) for visits to the emergency room, the doctor's office, or a day in the hospital – as long as the extra money is invested elsewhere in services – 71% said they would.
- + Most plan members (63%) agree that there should be tax credits or deduc-

tions for fitness/recreation activities. However, this initiative is supported by already active employees, and doesn't necessarily provide enough incentive for non-active employees.

+ Should people who make "bad" choices about their health habits be penalized? Respondents felt that employees should pay less for health coverage if they don't smoke (70%), live a healthy lifestyle (60%), or exercise regularly (55%). Less than half (46%) believed that those who are not obese should pay less.

Overall, respondents are willing to consider alternative healthcare concepts, and take more personal responsibility, but still have high expectations from the government to improve the system. **K**

HR Tools for You

Krieger + Associates has created web-based tools that put the power of knowledge at your fingertips.

- **Sample Survey:** Canvass your workforce to find out what their benefits understanding, needs, and expectations are.
- **Benefits Profiler:** Enable employees to determine which flex benefits option is best for them through a quick personal profiler.
- **Life Insurance Calculator:** Give employees the means to calculate the optimal level of life insurance they need to buy.

For details and access to tool demos, please go to www.kriegerhrtools.com.