

## 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](mailto:communik@kriegerandassociates.com)

[www.communik.ca](http://www.communik.ca)

To join CommuniK's free mailing list, visit our website, click on "CommuniK Newsletter" 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](http://www.communik.ca) and click on the CommuniK Newsletter link.

### IN THIS ISSUE

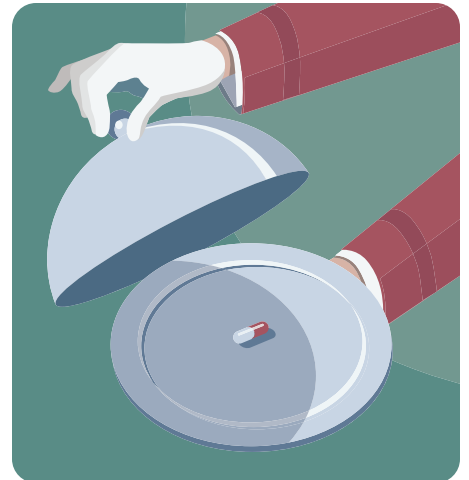
- ▶ **Critical Illness – the Benefit For Today?**
- ▶ **Retiree Benefits – Consider the Alternatives**
- ▶ **Communication Equals Value for Benefits**
- ▶ **The Future of Pensions**

## Canadian Drug Spending: How Will Your Drug Plan Be Affected?

According to the **Canadian Institute for Health Information**, drug expenditure in Canada reached a record **\$25.2 billion in 2006**, representing an annual increase of **6% from the \$23.7 billion spent in 2005**.

Over the last decade, drug costs have been growing at a rate of over \$1.5 billion per year and now well surpasses the \$16 billion per year spent on services provided by physicians. In the years to come, much of the increasing expense will likely fall on the private sector as the working population ages, new drugs are introduced, the industry continues to spend unnecessarily on the improper use and distribution of prescriptions, and the government makes legislative changes to its drug programs.

The *therapeutic revolution* of the 1950s and 1960s brought anti-infective agents to the market. Initially, formal inquiries into the drug industry at this time were focused on *aggressive promotion* and allegations of *anticompetitive pricing*. Although few cost control measures were put in place following these inquiries, pharmaceutical spending decreased in the 1970s, mainly because of fewer discoveries and the expiration of patents on post-war innovations. This decade also marked the introduction of *blockbuster drugs* such as the gastrointestinal medications *Cimetidine* and *Ranitidine*, which were foremost in achieving billion-



dollar annual sales. Between 1996 and 2006 drug expenditure more than tripled, but unlike the previous eras, the growth was linked not to new innovations but to drug classes discovered a decade earlier. This trend towards greater drug spending is arguably attributable to the aging Canadian population and the increasing need for pharmaceutical treatment of age related diseases.

According to *Drug Costs in Canada* submitted to the House of Commons in 1997, the number of Canadians aged 65 years or older in 1996 was 12% of the total population. The article also suggested that by 2016, the percentage of seniors is expected to reach 16% and possibly, 22% to 25% by 2041. With the aging workforce and the elimination of mandatory retirement, private drug plans can be expected to endure the cost of medications used to treat age-related diseases such as hypertension, diabetes and high cholesterol. We can also

expect to see inflated drug spending. Lifestyle drugs such as those used to treat erectile dysfunction and infertility are also becoming more popular and will ultimately impact the cost of drug plans where covered.

The growing number of new drugs developed to treat diseases that could not previously be treated will likely adversely affect the drug budget. New drugs generally have higher prices and doctors often prescribe them to replace older medications. Michael Sullivan, president of Cubic Health, believes that physicians currently have no incentive to prescribe cost-effectively, as many drugs prescribed have generic equivalents available at 30% to 50% less cost. "More prescriptions and the prescribing of more expensive drugs are the main causes of recent increases in Canadian drug spending", says Steve Morgan in his article published in the May 2005 issue of the Canadian Medical Association Journal. Closely related to this is the drug promotion expansion taking place since the 1990s, when American regulators relaxed restrictions on advertising. In just a few

short years, US\$3.2 billion was spent on direct-to-consumer advertising, much of which also influenced, and continues to influence, the Canadian market. The observable outcome is that the drugs most often prescribed are the ones that are the most heavily advertised.

Other prescribing practices are also affecting drug utilization and spending. Often there is incorrect dosage, unnecessary duplication of therapies, inappropriate duration of

#### GENERIC DRUG SAVINGS

Why aren't the savings from generic drug companies reaching consumers? In most cases drugstores across Ontario charge the highest prices allowed under Ontario's drug plan.

15 generic drug makers now sell to the Canadian market. They remain competitive by giving retailers "professional services allowances" to offset expenses like patient counseling, however drug prices have not decreased for consumers.

With generic drug companies lacking in profits, how much longer will it be before they have to start raising their costs, which will again only impact the consumer?

treatment, misdiagnosis and treatment of conditions that do not exist. Skinner and Rovere stated in *Canada's Drug Price Paradox 2007* that in 2006, \$6.6 billion was spent in Canada unnecessarily, due to inflated generic drug prices and inefficient use of medications. Approximately 28% of hospital admissions for patients over 50 is suggested to be the result of medication problems, 60% due to drug reactions and 40% from inappropriate use of medications. This costs the Canadian economy \$3.5-4.5 billion in direct health care costs and an additional \$7-9 billion in indirect costs (i.e. lost productivity due to absenteeism, hospitalization and premature death) each year. Many benefit plans also unknowingly cover drugs for plan members who are no longer eligible, over-the-counter medications and drugs specified as exclusions in their contracts, costing the private sector millions each year.

For more information on prescription drug increases and suggestions for protecting your company against possible impacts, stay tuned for our next edition of CommuniK. **K**

## Critical Illness – The Benefit for Today?

New radio commercials are generating awareness of Critical Illness insurance. Is this something your plan should have?

In the past, Critical Illness (CI) was subject to a combination of medical questionnaires and exclusions that meant most of us over age 22 could not buy this coverage. K+A did not recommend this product widely as a result. A benefit is not a benefit if no one qualifies for coverage. Advances in underwriting have changed the rules a little and may now make this a better addition to your group plan.

Critical Illness insurance provides a tax-free lump sum payout should you be diagnosed with any of the covered conditions and survive the required period following, generally 30 to 90 days, depending on the provisions.

Generally these plans cover 10 to 15 catastrophic illnesses, such as Heart Attack, Stroke, most cancers, Multiple Sclerosis, ALS and Kidney Failure.

With new products in the market place, insurers have developed group coverage that works like Life Insurance,

## Advances in UNDERWRITING

which is purchased for your entire group on a mandatory basis, as well as Optional coverage with age banded rates. Optional coverage may have a Guaranteed Issue component, meaning that evidence of insurability is not required for all coverage. Most plans have restrictive pre-existing condition exclusions, to offset the relaxing of up-front evidence requirements. One

interesting twist on CI is adding it onto Accidental Death and Dismemberment coverage. This may not provide the same magnitude of benefit or may be limited to fewer covered illnesses, but it is an economical way of adding CI coverage for your group.

Is CI something you should have? As an employer, you have a unique opportunity to provide employ-

ees access to coverage they could not purchase on their own. CI is

an excellent example of a product that is too restrictive for many people, in the individual insurance market, but through their employer, it may be superior in quality or it may be more affordable, and it will definitely be an easier purchase, through payroll deduction. If you are interested in learning more about Critical Illness, please let us know. **K**

## Retiree Benefits — Consider the Alternatives

**There has been a lot of buzz about retiree benefits in the news recently.**

While this is mostly about private pension plans and the shift from Defined Benefit to Defined Contribution plans, not a lot of emphasis has been put on the cost of healthcare for retired employees, at least not yet.

According to the Sanofi-Aventis Healthcare Survey 2007, the majority of plan members (54%) expect their employer to continue to provide access to their employee health plan after retirement. However, according to the Postretirement Healthcare Benefits in Canada 2006 survey, of the 45% of companies that offer postretirement benefits, 57% plan to reduce these benefits over the next three years. The top three reasons for doing so are rising healthcare costs, accounting costs, and the huge number of employees who will retire in the next 10 years. An excellent example of employer cut-backs in retiree benefits is the recent General Motors Corp. settlement with the United Auto Workers (UAW) in the U.S., which reduces GM's liabilities by creating a UAW-administered retiree healthcare trust fund. The liability of the retiree healthcare was so significant it was detrimental to the long-term financial survival of GM. While government sponsored Health plans reduce the magnitude of the coverage and therefore the total liability, accounting rules

mean retiree benefits have a negative impact on the financial statement of all publically traded companies. Given the aging population and the impending labour shortage, this may be important coverage to differentiate you as employer of choice.



Canadians' sense of entitlement is catered to during their employment and continues once their employment ends. Rising drug costs in North America creates increased costs for privately funded health plans, which places a burden on employers. When forced to make decisions about cutting the bottom line, often retiree benefits are first to be on the chopping block.

Companies should however, think about long-term implications to short-term solutions. Employees'

needs should be balanced with business decisions. One way employers can address these seemingly conflicting goals is by offering voluntary benefits (employee paid) and ensuring all coverages include a conversion option to allow employees to continue coverage at their own expense after retirement without having to provide evidence of insurability. Or shifting to a shared responsibility model for retirees such as premium sharing, larger plan deductibles and co-insurance on drugs.

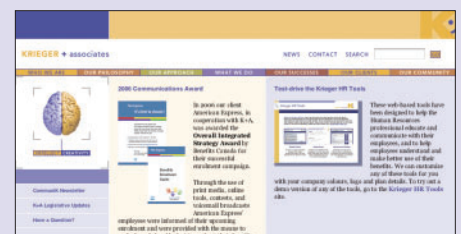
GM used a funding methodology under which a Voluntary Employees' Beneficiary Association (VEBA) was established to fund the cost of retiree healthcare. Employees and employers are allowed to contribute to this type of a trust and employees can claim health related expenses, including insurance premiums. Employer contributions are not taxable to the employee and interest accumulated on funds on deposit accumulate tax-free.

In addition to RRSPs, Pension plans, and other savings, K+A feels that employees would be wise to save for unexpected health care costs. Current Canadian tax laws prohibit employers from facilitating a pre-funded account for employees to use to pay health expenses once retired. We should, however, encourage our politicians to review the use of vehicles like the VEBA to ensure promises to employees can be affordable and healthcare needs can be met after retirement. **K**

### New look for K+A Website

Krieger + Associates is proud to announce the launch of our newly redesigned website. Along with the fresh new look, our content has been reorganized to make it easier to get to information about the company, our

services, and back issues of CommuniK. Helpful resources, including a Benefits Glossary, Frequently Asked Questions and a thorough list of industry links can be found in the News section. We invite you to have a look! Our address hasn't changed – you can find us at [www.kriegerandassociates.com](http://www.kriegerandassociates.com). **K**



## Communication Equals Value for Benefits

It should come as no surprise that when employees understand their benefits, they appreciate them more. It also makes sense that employees (94%) feel more satisfied with their jobs when their employer is a “very good” communicator (*Sanofi-Aventis survey 2007*).

Considering employees value their employer sponsored benefits more highly than a cash equivalent, wouldn't it be wise to enhance employee awareness of their plan? It simply makes good business sense to invest money back into the benefits plan by allocating a small percentage of benefit costs towards communication.

It's a safe bet that employees would prefer to be smart consumers when it comes to their benefits plans and coverage options, and would value accessible and relevant information about them. Proper tools and guidance should be available to enable employees to make decisions about their plan options. Often the sense of information overload can be overcome by distributing communications in phases.

MetLife's 2007 Open Enrollment Trends survey found that 59% of respondents from companies with at least 500 employees said they'd like their employer to suggest benefits that would be appropriate for someone in their life stage. So strong was the quest for advice that 84% of the respondents were willing to share with insurance carriers or service providers sensitive information about themselves if it meant receiving customized guidance on life-stage benefits.

Popular methods of effective communication with employees include:

• Newsletters

• Intranet sites

• Webcasts/ seminars

• Personalized plan documents

K+A has won nine Benefits Canada awards, has been recognized with additional achievements and would be happy to discuss providing communications solutions with you. **K**

## The Future of Pensions

In late 2006 The Province of Ontario appointed its Expert Commission on Pensions.

Its mandate was to review the province's pension legislation including “the rules governing the funding, deficits and surpluses of Defined Benefit (DB) plans, and the security, viability and sustainability of the pension system in Ontario.”

This fall, the Expert Commission conducted public hearings. Union and employee feedback indicated the necessity for the expansion of Ontario's Guarantee Fund, which is designed to protect pensions. Alternatively, employer groups want the system simplified and restrictions relaxed to make pension plan sponsorship more welcoming. A number of law firms' responses tend to reflect those of employers or employee groups that they commonly serve.

Most of the submissions are highly technical and presume a high level of knowledge with the existing system and are, unfortunately, unclear to the average executive.

From the submissions reviewed, ideas to truly “re-invent” our defined benefit pension system in Ontario seem few. In its submission,



the C.D. Howe Institute takes on the more controversial recommendation that DB plans may not be the answer at all.

“Indeed, this classic model [of single-employer DB plans] may have flaws so fundamental as to make it an inappropriate element in employment compensation in the future.”

The C.D. Howe Institute also challenges the commission to consider a multi-employer style Defined Contribution system as a possible solution to the challenge of delivering pension benefits to individuals in a cost effective, low-risk manner. The proposed solution is to have a minimal DB guarantee with the majority of the benefit sourced by DC accounts, which have favourable investment and administrative costs due to pooling.

Joe Nunes of Actuarial Solutions Inc., responds to these proposals:

“Employers should be able to promise DB plans and fund them more closely to the way defined contribution plans are funded. Employers should gradually vary the rate at which they contribute to respond to market fluctuations to maintain the “predictability” of costs so coveted by employers.

This solution places the investment and retirement planning roles primarily with experts and leaves employees with a smaller “nest egg” to manage. This solution does place greater risk on employees that their assets will not secure 100% of the target benefit – but this at least offers the automation of increased contributions, which is not the case for traditional defined contribution programs.”

Whatever the plan design and contributions, most believe some form of shared responsibility exists, and that Canadians are not saving enough to have their desired lifestyle when they retire.

“Two-thirds of Canadians who want to retire by 2030 are not saving enough to pay for basic household expenses.” (Source: *Canadian Institute of Actuaries, cited in Toronto Star, July 18, 2007.*)

Constant communication can help make sure employees understand their arrangements and are able to identify how much they need to save. **K**