ISSUE 5 – APRIL 1999

BeneFacts

NEWS FROM HEATH BENEFITS CONSULTING

5.1 The Insurer Files

Ontario Blue Cross
The ownership situation at OBC has changed – again. You may recall that, several years ago, Liberty International bought the old Ontario Blue Cross, from the OHA. They changed the name to Liberty Health and have been operating and growing it ever since. Then, the other Canadian Blue Cross organizations created a new Ontario Blue Cross, owned equally by all of them. This company essentially started with nothing but a well-known name, and has been building ever since. Now, it has been announced that Croix Bleu of Quebec has become the sole owner of Ontario Blue Cross.

Allianz
It seems like about a year ago that this major European insurer started quoting long-term disability insurance plans in Canada. Now it has emerged that Allianz is apparently withdrawing and not renewing contracts. No public announcements have been seen, but we are aware of some contract terminations.

Seaboard
Seaboard Life, whose main offices were in Vancouver, has been acquired by Industrial Alliance. Seaboard was well known for its special risk insurance products. They will apparently continue to be available, under Industrial Alliance policies.

Mutual Life, which intends not to be a mutual [ie policyholder-owned] company very soon, has announced that it has selected a new name – Clarica Life Insurance Company.

Aetna Canada
In spite of constant denials, it now emerges that Aetna Inc. of the US has invited bids for Aetna Canada. The most likely acquisitors are Manulife, American International Group [AIG] and Canada Trust . Apparently the sale price is between $400 and $700 million.

Distribution Alliance
Great-West Life, London Life and Investors Group [all part of the Paul Desmarais empire] have allied themselves with Sun Life [currently a mutual company] for some product distribution. The Desmarais companies will sell Sun's universal and term insurances, while Sun will sell Great-West's small group benefits products and their disability insurances. At first glance, this looks like more of the functionalizing of insurers which was discussed in the last issue of BeneFacts.

5.2 Of Retiring Interest

More on Group RRSP Admin Fees By Greg Hurst, Pension Division Manager, Vancouver

As mentioned last edition, Revenue Canada has announced that employer-paid RRSP account administration fees are considered a taxable benefit to employees. This announcement has not been accompanied by any written policy interpretation from Revenue Canada. As a result, there exists uncertainty as to whether all Group RRSP fees paid by an employer constitute a taxable benefit to employees. This article attempts to clarify the situation.

As a starting point, it is helpful to review the tax treatment of RRSP account administration fees generally. Until 1996, administration fees [generally applicable to self-directed RRSP accounts] paid by a taxpayer could be deducted from taxable income. In 1996 Revenue Canada took the position that such fees were not deductible from taxable income, unless they were paid as part of the RRSP deposit. In other words, RRSP administration fees paid from within the RRSP account were effectively deductible from taxable income, but not those paid from outside the RRSP.
Revenue Canada's position on employer-paid RRSP account administration fees, as stated above, is simply consistent with the above policy. RRSP account administration fees paid by an employer, as an employee benefit, are therefore taxable. However, not all fees paid by an employer in respect of a group RRSP need be regarded as taxable benefits to employees. At issue is whether the fee paid by the employer is in respect of a benefit

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In This Issue

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5.3 Product Developments

Viagra Update

The big news is that the product has finally been approved by Health Canada for sale in this country. With all the advance publicity, you can be sure that your staff are probably aware of the product, and will be looking for you to advise them as to whether your plan will cover it, and if so, how. Now would be a good time to make that decision, and you may want to talk it over with your consultant.
To assist you, we are reprinting the insurer table from last month, with Standard Life added. This shows the standard position of the insurers, which you can either accept or – in many cases – modify.

	Cover in Standard Plans	Cost to Cover	Notes
Canada Life	no	not stated	state product is not medically necessary
Great-West Life	no	4.0% to 5.5%	will cover at extra cost
Green Shield	no	5%	8 pills/mo $1,200/yr
Liberty	no	not stated	
Manulife	yes	not stated	8 pills/mo $1,000/yr
Maritime Life	yes	3.5% to 7.5%	24 pills/3 mos $500, $1,000 or unlim./yr
Standard Life	yes	37.5% to 50%	Increase depends on plan size – $1,000/yr.
Wawanesa	no	4%	$1,200/yr
GSMIP	no		federal civil servant's plan

Critical Illness Insurance

By Terry Wallace, Consultant, Toronto

Between 1931 and 1991, the life expectancy of Canadians has increased by over 15 years. One contributor has been the amazing advances in medical care. Today, more than ever before, a person is more likely to suffer a critical illness and survive.

Most group benefit plans meet the needs of employees for life, disability and medical insurance coverage. Traditional life insurance provides funds to the insured's dependents after their death. Disability insurance provides a reduced income during their inability to work. In view of the cutbacks in our government sponsored healthcare and the ever rising cost of treatment, many individuals may be required to pay more out of pocket for required services during recovery. Any private insurance plan, either individual or group may not cover these additional expenses. With the increased likelihood of surviving a critical illness the gap between traditional insurance coverage and financial needs has widened.

First introduced in the U.K., South Africa and Australia, Critical Illness coverage fills that gap by paying the insured a tax-free lump sum payment if they survive a minimum of 30 days after they are diagnosed with a covered critical illness.

Payment is not dependent on inability to work and the money can be used in any way the insured sees fit.

The onset of a critical illness often generates expenses that are not covered by current public or private health care plans, and which may require immediate expenditures, by the insured. The lump sum benefit allows them to make changes to their home or pay for special equipment (in the case of amputation, paralysis or blindness). It may also be used to pay for home care, obtain treatment abroad, supplement disability income, or pay off debts.

How the money is used is completely up to the individual – while they are still alive – a Living Benefit.

All insurers cover at least the following four diseases as a core, or base, plan:

- Life-threatening cancer
- Heart attack
- Stroke
- Kidney failure.

Most plans also include some, or all, of the following enhancements:

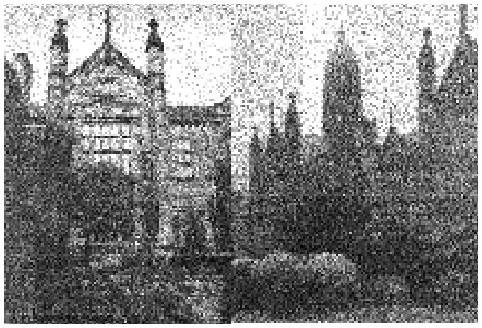
- Coronary by-pass
- Major Organ Transplant
- Blindness
- Alzheimers
- Paralysis and Multiple Sclerosis, among others.

Costs vary, as do the amounts of insurance that can be purchased. Most insurers offer group coverage in units of $10,000 or $25,000, with maximums as high as $500,000. The price is slightly higher than traditional group term life insurance at most ages. Rates can be based on the group average, but are usually quoted on a 10 year age banded basis; male, female or unisex. Some plans may even include the option of providing spouse and child(ren) benefits. Evidence of good health, based on your and your family's medical history is usually required to approve coverage. Critical Illness coverage is still in its infancy in Canada and as each insurer launches their own version, product options continue to evolve. The basic premise and need for coverage however remains the same.

To find out more about this product, what benefit it can be to your employee population and how it may fit with your current benefit plan philosophy, please contact your Heath consultant.

Gum Disease

The Globe and Mail reports that University of Toronto projects increases of 32% for gingivitis and 45% for periodontitis, by the year 2006. This is attributable to the aging population, who are not losing their teeth as quickly as their parents. It augurs badly for dental plan costs, especially since the CDA repositioned scaling from major to basic services, a couple of years ago [what did they know?]. The article points out that the principle cause of the diseases is poor dental hygiene.



Views of Trinity College, University of Toronto

Editor's note. My dentist told me 10 years ago that if I wasn't prepared to floss regularly, I should use a Water Pik type of product, with yellow Listerine added to the water. I've been doing it ever since and – touch wood – have never had the problem.

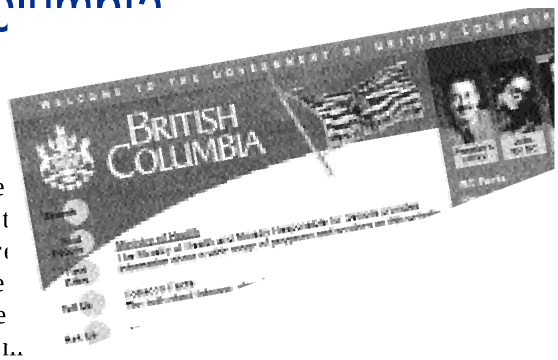
Migraine Headaches

Personal Wellness, a west-coast newsletter, reports that mild to moderate migraine pain can be reduced by a combination of ASA, acetaminophen and caffeine. You can make this treatment by combining one tablet of extra strength Aspirin and two tablets of regular strength Excedrin.

Editor's note. I know three people who have tried this cocktail and are amazed at how well it works – and it does not knock them out.

5.4 News from Around the Country

British Columbia



British Columbia has announced an internet site [http://www.healthtrans.org] that contains almost 100 health-care related documents that have been translated into up to 10 languages. The purpose is to facilitate good communications between patients and health care providers in the very multi-cultural province.

Ontario

Contract Workers Status A woman worked for a company for 12 years, on annually renewing one-year contracts. When the directors of the company changed, they notified her that her contract would not be renewed, and that no severance would be paid. She sued, and was awarded 12 months' salary in lieu of notice. The judge found that, after 12 years, and being the second highest paid employee, she was entitled to be considered as an employee. An appeal is possible.

Welfare Trust Ownership There were a group of school boards, mostly in northern Ontario, who joined together to acquire employee benefits, in what became known as the OSTC Plan. They signed a form of trust document, and over time, the Plan accumulated a surplus which ultimately reached $1.5 million. When some boards wanted to withdraw, they were told by the administrators that they would not be entitled to any share in the surplus – that the proceeds would belong to the remaining board[s]. The court found that all the required elements of a Trust did exist, and ordered that the surplus be distributed to all members, present and former. This is interesting, particularly because it would presumably have been the same ruling, had there been a deficit instead of a surplus. There are arrangements, legally known as tontine, where the last member carries all the financial responsibility, good or bad. The judge did not find this situation to exist, for OSTC.

Federal

The impact of the budget on employee benefit programmes can be summed up in a word – none. We have seen nothing about changes to tax arrangements for benefits, or about implementing Pharmacare, for example.

5.5 Clarification of Tax Table

In the last edition, article 4.5 was a table identifying the tax treatment of employee benefits. The table indicated that employer contributions to provincial health plans are not taxable to the employee, except in Quebec. In response to questions, we should clarify that this refers to contributions that some Provincial Governments impose on employers. If the employer pays contributions that are required of employees, on their behalf, then this most definitely is a taxable benefit to the employee.

More on Group RRSP Admin Fees - continued from front page

provided to employees, or in respect of services provided to the employer.

Many Group RRSP providers [mostly insurance companies] provide services to employers that go beyond the administration of individual RRSP accounts. These services include preparation of employer reports and delivery of retirement and investment education services on behalf of the employer. These are services provided to the employer. These services directly benefit the employer in managing its liability risks relating to the Group RRSP. They do not directly benefit employees. In my view, fees charged by a provider that are allocated to such employer services could not be considered as taxable benefits to employees.

The key then, is to ensure that expenses for Group RRSPs are contractually partitioned in an appropriate manner. If a contract or service agreement between the employer and the financial institution does not exist [as is the case for most bank and mutual fund company group programs], any administration fees paid by the employer will be taxable benefits to the employee. An existing Group RRSP contract, or service agreement, may require some changes to ensure that employer paid expenses are appropriately partitioned. If your financial institution appears to have provided advice in this regard, approach such advice with caution. Financial institutions are generally loath to provide tax advice – it is more likely that they have simply passed on the information regarding Revenue Canada's position.

As a final note, some employers pay investment management fees directly. It is my view that such fees paid by the employer would most certainly constitute a taxable benefit to employees, and should be reported as such on an allocated basis.

If you have any questions regarding the tax position of employer-paid RRSP fees, contact your Heath consultant.

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NEWS FROM HEATH BENEFITS CONSULTING

Heath
BENEFITS CONSULTING INC.
www.heath.ca

Vancouver Office
403-555 West 8th Avenue
Vancouver, British Columbia V5Z 1C6
Phone: (604) 877-0488
Fax: (604) 877-0325
Toll Free: 877-HEATH-BC
(877-432-8422)

Winnipeg Office
11 Wethersfield Road
Winnipeg, Manitoba R3P 2G8
Phone: (204) 487-1300
Fax: (204) 487- 0055
Toll Free: 877-HEATH-WI
(877-432-8494)

Toronto Office
305-191 The West Mall
Toronto, Ontario M9C 5K8
Phone: (416) 620 - 0779
Fax: (416) 620 - 9416
Toll Free: 877-HEATH-TO
(877-432-8486)

Ottawa Office
1203-99 Metcalfe Street
Ottawa, Ontario K1P 6L7
Phone: (613) 238-4272
Fax: (613) 238-3714
Toll Free: 877-HEATH-OT
(877-432-8468)

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