

# 7.1 The Insurer Files



**NEWS FROM HEATH BENEFITS CONSULTING**

- Demutualization. Mutual went first. Their policyholders voted substantially in favour of becoming a stock company. In quick order, the change in name to Clarica happened and shares began trading. Next up was ManuLife, where the transformation was also approved. Canada Life has set a date for September 16, for their vote, and Sun Life will surely not be far behind.

- Potential US\$700 Million Loss. Sun Life is facing a potential US\$700 million loss as a result of its participation in a major reinsurance pool in the US. Sun participated with others in a reinsurance pool managed by Unicover which, it says, was expected to generate about \$600 million of premium. Instead, the pool grew to US\$7.8 billion and Sun is now confronted with losses. Sun states that they do not accept liability, and are contesting.

- The table right shows current group insurers, ranked according to their volume of group benefits [not pension] business. The position of ManuLife is assumed, since the volume was not available. The number of insurers in the group business continues to decline, and the volume of business being transacted by the largest players continues to grow, albeit augmented by their acquisitions.

## ASpecial Note

September marks the 20th anniversary of the founding of our company. We feel we have come a long way, and we know there are many challenges ahead.

Back then, in 1979, it seemed that there was room for a company that provided quality benefit services to organizations other than the Fortune 500 companies, government and unions. That seems even more true, now, particularly given the incredible pace of change in the employee benefits field, and the stresses and strains that you, our clients endure.

Thank you for the confidence you have shown in us. We commit to continuing to provide you with a reliable and pro-active value-added service.



## Jill Masters

We are pleased to introduce you to Jill Masters, who has just joined our Vancouver office as a senior consultant. In that capacity, Jill will be working directly with a number of our clients, and will also have a business development responsibility.

Jill has over 20 years experience in group benefits, most recently as a senior group representative with a major insurance company. Her background also includes management roles in the claims and administration departments.

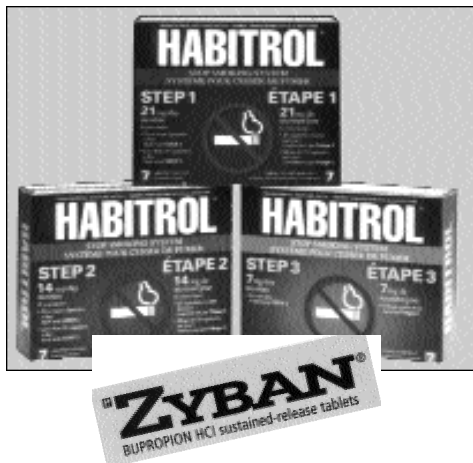
Jill's particular expertise in plan design, funding and claims management will be of assistance to her clients at Heath."

Insurer	Volume \$,000's	Life	AD&D	STD	Health	Dental	Home & Auto	Critical Care	EAP	Legal	Travel Acc.
1 Great West Life	\$2,720	x	x	x	x	x	x				
2 All Blue Cross Org's	\$1,808	x	x	x	x	x		x	x		
3 ManuLife	N/A	x	x	x	x	x					
4 Sun Life	\$1,616	x	x	x	x	x					
5 Clarica (Mutual)	\$1,101	x	x	x	x	x					
6 Maritime (incl Aetna)	\$947	x	x	x	x	x			x		
7 Desjardins/Laurentian	\$900	x	x	x	x	x			x		
8 Canada Life	\$688	x	x	x	x	x	x	x		x	
9 Liberty	\$612	x	x	x	x	x			x		
10 Green Shield	\$384					x	x			x	
11 Co-operators	\$214	x	x	x	x	x					
12 Standard	\$190	x	x	x	x	x		x			
13 National	\$113	x	x	x	x	x					
14 Zurich	\$77	x	x	x	x	x					
15 Equitable	\$74	x	x	x	x	x					
16 La Personnelle	\$69	x	x	x	x	x					
17 Empire	\$57	x	x	x	x	x					
18 Citadel	\$34		x			x					x
19 Provident	\$30	x	x	x	x	x					
20 Westbury	\$26	x	x	x							
21 Wawanesa	\$15	x	x	x	x	x					
Cigna	N/A		x					x			x
GAN	N/A							x			
Imperial	N/A	x	x	x	x	x					
UNUM	N/A	x	x	x		x					

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## 7.3 Product Developments



### Smoking Cessation Products - Update

Nicotine replacement gum and patches are now over-the-counter products in all provinces, and thus not covered under prescription-required plans. Zyban – the pill – is the only product that requires a prescription. It therefore qualifies for coverage under prescription-required plans, and most insurers impose a \$500 lifetime maximum benefit.

### New Anti-Obesity Drug.

Zenical is a newly approved drug intended for people who suffer from true obesity. Course of treatment can go for up to 2 years, at a cost of about \$5 per day (\$3,500 potential total cost). A prescription is required, and insurers are seeing this as an eligible drug in their standard programmes. All insurers indicate they will be screening carefully to prevent the drug plan to be used for casual dieting.

Maritime Life has announced their policy in this regard, and it appears thorough.

### Coverage for Divorced and Separated Spouses.

In case you were not aware, standard group insurance contracts exclude people in this category. In the event that a court orders your employee to cover her/his ex-spouse, you are not obliged to do so. It is the responsibility of the employee to arrange the cover on an individual basis. Should you wish to extend your plan, you would need the agreement of your insurer.

### Disability, an International Perspective

The following editorial appeared in a recent edition of *The Economist*. It may not be comforting to know that the challenges we face here are exceeded by those of other jurisdictions.

Down with Disablement. If people are healthier, why are the numbers claiming welfare benefits on the grounds of disability rising so fast? People in the rich world are eating better, smoking less, exercising more and receiving better medical care than they did 30 or 40 years ago. But are all these healthy activities not just boring but positively unhealthy? So it would seem: more and more people are also living on welfare benefits intended for the disabled.

The numbers in some countries are so dire that it is a wonder they can hobble along at all.

In the Netherlands, for instance, 13% of the working-age population claims to be disabled.

In Britain, almost half the people of working age who claim a welfare benefit are receiving money for being disabled or sick; one man in four aged between 60 and 65 is claiming incapacity benefit.

In Norway, more than 57% of people aged between 55 and 64 are registered as disabled.

Can the figures be reconciled? Or is disablement simply the rich world's biggest welfare scam? Incontrovertibly, the health of the old has been improving. Being old has never been much fun. The joke used to be that, if you woke up in the morning and nothing ached, you were probably dead. But life expectancy for people aged 65 has continued to rise, and so have the number of years that older folk can expect to live to without suffering severe or even moderate disability.

Most people can expect a couple of unpleasant years of incapacity at the end of their lives, but that period now typically arrives when they reach their mid-to-late 70s or even their 80s, rather than their 60s. Moreover, American research suggests that the decline in disability among older people has accelerated: it was faster in the first half of the 1990s than in the 1980s.

So why the near-universal rise in the number of people of working age who claim to be disabled?

The truth is that most claimants are merely suffering the pains of being

past the prime of life and unwanted by employers. Plenty of rich countries have long used disability benefits as a way to shovel out of sight the most intractable group of the unemployed: people 'mainly men' in their 50s and early 60s. Indeed, some governments have encouraged older workers to claim to be disabled by obliging doctors to consider the state of the job market when deciding whether a patient should be registered as disabled. Germany, Italy and Finland all make access to disablement benefits easier when unemployment is high.

### Disabled or dissembled

Using disability benefits to 'solve' labour market problems is unwise and unkind. It inflates the cost of supporting older unemployed people, and deflects governments from searching for better solutions for their plight. But tightening the rules is politically fraught, as Britain's prime minister, Tony Blair, has found: he has faced a furious parliamentary revolt over a plan to make disability benefits harder to claim.

Even when governments try to tighten the rules, people may find ingenious ways around them, if the incentive is great enough. In Britain, a rise in the number of supposedly disabled claimants seems to have coincided with the tighter policing of access to unemployment benefit. In the Netherlands, arguably the world leader in phoney disablement, a tough government line on physical disability has encouraged many folk to claim mental disability. Proving that somebody does not suffer from disabling stress is even harder than proving that their backache is too bad for them to work. One option is to tighten the rules on what counts as disability, and to administer them vigorously.

Another is to change the balance of incentives. In many countries, benefits reward those who retire early, especially if their incomes are already low. It would be better to ensure that those who continue to work in late middle age also continue to clock up extra pension entitlement. A third possibility is to alter expectations. Of course, some disabled folk cannot work and will never work. But, for many, a job would bring self-respect. If governments assumed that even the disabled should some times work for their welfare, the truly disabled might be the most grateful of all.

# 74 News from Here & There



## Federal

**Coverage for Same-Sex Spouses.** The Supreme Court of Canada, in a ruling on May 21, has probably finished the debate on this issue, by stating that it is unconstitutional to limit the definition of a spouse to someone of the opposite gender. If your plan has not already been written to accommodate same-sex spouses, now is the time to do it. Not to comply, could leave you open to charges of discrimination.

**New Accounting Standards - Update.** In edition 2 of BeneFacts (September 1998), we alerted you to the probability of the Canadian Institute of Chartered Accountants (CICA) introducing new accounting standards in respect of unfunded liabilities. At that time, it was expected that the new standards would come into force, for private sector employers, for fiscal years beginning January 1, 2000. Public sector employers were expected to be impacted, beginning in 2001. The stated purpose is to harmonize standards in North America. In other words, Canadian GAAP is being adjusted to mirror US GAAP.

The private sector project is on time, with the new standard now in place. To quote from the recent CICA press release:

The standard calls for the accrual of the cost of non-pension benefits in an organization's financial statements, eliminating pay-as-you-go accounting for these benefits. Non-pension benefits include other retirement benefits, post-employment benefits, compensated absences and termination benefits. The new standard modifies existing requirements for pension benefits and applies these requirements to non-pension benefits. For example, an organization must now use a market-based discount rate to measure its financial obligations for both pension and non-pension benefits.

If you provide post-employment or retirement benefits such as health insurance, life insurance, vested sick days or parental leave, you will be required to recognize the related liability and expense in your financial statements. Computing these liabilities will usually require actuarial work, and your Heath team is ready.

The public sector project is also progressing. A preliminary Statement of Principles was issued in February, and a revised and updated Statement is now expected in October. It is clear from the February publication that the situation of public sector employers is seen differently from that of private sector employers. We shall keep you posted.



## Ontario

**Benefit Premiums for Disabled Staff.** For many plan sponsors, determining what to do in this circumstance is a challenge. Even when collective agreements are involved, the situation is often not clear. Now, a recent court decision helps by providing a judicial perspective that you may wish to consider.

The finding was that a leave of absence for a medical disability is to be treated the same as a leave of absence for any other reason. The court also found that employer contributions to benefit plan costs are a form of additional compensation, in exchange for work. Therefore an employer does not discriminate against disabled employees if it does not contribute.

However, the court also found that an employer would be discriminating if the employee did not continue to accumulate seniority during the leave. In the case before the court, seniority had implications for layoffs and recall, but was not the only criteria. The court determined that seniority is not directly related to compensation - it only relates to the person's status as an employee. Therefore, a disabled employee, for the purpose of seniority, must be treated the same as all other employees. (Note that this decision relates to a specific case which involves a collective agreement. It provides an interesting perspective, but does not govern all circumstances.)



## BC

**Supplementary Health Care Trend.** British Columbia has the dubious honour of the highest year-on-year trend factor in the country, at a whopping 20%. This is the factor most insurers are using for BC health plans - it could vary up or down, depending on your underwriting arrangements and your claims experience. The reason for such a huge increase is simply that insurers have to fund for claims that are no longer covered by BC Med. Many other provincial plans off-loaded coverages in previous years, but none caused increases at this level. And no, you will not find the details of these reductions in the government press releases - they are reserved for 'good news'.

**Bill 58.** The Pension Benefits Standards Amendment Act 1999 was passed in July. There are many changes contained therein, and one has excited heated public debate. The legislation will allow multi-employer pension plans to suspend the pensions of early retirees who return to 'work and service' in the industry from whence they retired. It is expected that certain construction trades unions will use this provision to punish former union members who find work outside of the union's jurisdiction. Various interested parties have begun the process of contesting this legislation, some of whom are working with our Vancouver pension division.

[News from Nova Scotia on back page.](#)

### Individual Pension Plans (IPPs)

Revenue Canada has pounded another nail into the coffin for pension services provided primarily for key employees (e.g. Individual or Executive Pension Plans). Benefits for pre-1990 service will be restricted such that their value does not exceed the value of benefits provided for current service (service after the effective date of the plan). The rules boiled down to this – you cannot immediately capture pre-1990 service upon establishment of an IPP. If benefit accruals are at the maximum rate (\$1,722 for post-1989 service and \$1,150 for pre-1990 service) pre-1990 service may be captured at the rate of 1.5 times each year of current service captured. Plans established before May 15, 1998 are grand-parented and there are provisions for exceptions which meet certain criteria.

### Pension Splitting

The Supreme Court, in the Best case, has selected a valuation method for pension splitting. The court chose one that is based on the pro-rata pension entitlement acquired during the years of marriage, rather than the value of the pension as an investment in the marital period. The formula divides the value of the pension evenly between the number of years of contribution, and the ex-spouse gets one-half of that value for each year of marriage. This overturned an earlier (ONT) ruling that would have awarded the ex-spouse one-half of the value added in the specific years of marriage, and thus would have treated the pension like an investment. In the Best case, the Supreme Court ruling was worth \$75 K to the ex-spouse, as compared to \$148 K in the lower court.



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## Nova Scotia

Pharmacare and Seniors. It was earlier reported that NS Pharmacare intended to change from being the

primary payor to being the secondary payor, where a senior has drug coverage from a private plan. Insurers were involved in discussions with NS officials, because they recognized that this would add enormously to the cost of retiree plans, which would affect premiums, whether paid by plan sponsors, employees or retirees. One insurer is quoting a \$100 per retiree per month incremental cost.

The situation is not yet fully clear. NS is now indicating that they intend to be 2nd payer in any situation where the retiree drug plan is first payer in another province. Thus, all NS-only plans are not affected. Neither are plans which are 2nd payor in other provinces.

There remain many questions such as: how will NS determine that an employer plan is first payor in another province? What about plans where the majority of participants are in NS - will their status be affected by a few residents elsewhere? If a senior drops a private plan because s/he can no longer afford the premium, will s/he be eligible for Pharmacare coverage and will there be a cost?

## 7.6 neatstuff@thenet

This month, you might want to add [benefitscanada.com](http://benefitscanada.com) to your 'favorites' list. This online companion to the industry magazine updates news about benefits and pensions on a weekly basis. Very good and timely information. Also, please note that Clerica have changed their website address to [www.clerica.com](http://www.clerica.com).