

# TALKING BENEFITS

## Nothing Endures But Change—*Heraclitus*

To say that the business world in which we operate today is changing at an unprecedented pace is stating the obvious. Survival and success for business today is predicated on anticipating these changes and acting accordingly, so that the products and services we provide continue to be relevant as well as being provided and produced efficiently. Easily said, but not easily executed at the pace of change we operate in today. At Heath things are no different, where seemingly change sometimes appears to be the only constant.

In response to the growing need to support customers across the country, many of whom are growing and merging themselves, 'Heath Benefits Consulting' was formed

from the roots of two well established regional firms. With this merger came a significant improvement in our ability to provide services nationally and expand our existing capabilities driven by new economies of scale. In short order we will be offering customers access to our national customer service centre in

conjunction with our new and expanded third party administration capabilities.

On a global level, in December 1999 the 'Heath Lambert Group' was formed through a merger of the

Heath Group PLC, our senior shareholder, and Lambert Fenchurch Group PLC. The new group is now the sixth largest insurance and reinsurance broker in the world, with over 100 offices worldwide. In Canada we will now be known as HEATH LAMBERT BENEFITS CONSULTING INC.

**What does all this mean to our customers in Canada *besides another name change?***

A full range of corporate insurance services, including property and casualty coverage.

The Lowndes Lambert Group has been operating in Canada for over 50 years, providing full service insurance brokerage, offering property and casualty coverage to both business and individuals. Through seven additional offices across Canada we can also provide speciality products such as auto, aviation, marine, fidelity and surety bonds, cargo, employment practices, directors and officers liability coverage. As we integrate our services we are now in a position to provide both high quality employee benefit and property and casualty insurance brokerage services in Canada and around the world.

For more information on how our broadened service capabilities could benefit you, contact your Heath consultant for an introduction to our new world.

### STARTLING STATS

- ❖ *Drugs will account for 15.2% of health care spending in 1999 compared to 8.4% in 1979*
- ❖ *Canadians now spend more on drugs than on any other health care spending except hospitals*

SOURCE: CANADIAN INSTITUTE OF HEALTH INFORMATION

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### DIN MARK-UP

Effective September 1, 2000, BCE Emergis, Assure Health Division will be reducing the DIN (drug information number) mark-up buffer in British Columbia. This is for both EDI (electronic data input) claims from pharmacies and on paper reimbursement claims from cardholders. The high mark-up allowances in British Columbia, combined with very poor private drug plan experience, has forced this action on behalf of BCE Emergis' insurance carriers and their customers. The British Columbia DIN mark-up allowance remains the highest in Canada even after this reduction.

# Units of Measure for your Investment Fund

There is a common link in the recent RT Capital and Transamerica scandals – both centered on the determination of “unit values” of pooled funds managed by these organizations. In the RT Capital scandal, fund managers manipulated stock with the objective of inflating unit values at certain dates – specifically month and quarter ends which are used to determine comparative rates of return. Stock manipulation is illegal, and RT Capital and the employees involved have suffered severe consequences, which the popular media has detailed at some length.

In the Transamerica scandal, on the other hand, there was no stock manipulation and likely no illegal activity. At Transamerica what happened is that certain employees observed that unit values were determined hours before the market where the assets of a particular segregated fund were invested closed. This presented a classic “arbitrage” opportunity for those employees (and anyone else in a position to make the same observation). The results of a purchase or redemption of units, relative to the unit value struck the next day, was a sure thing. Gains could be anticipated and losses could be avoided. Of course the actions of those Transamerica employees have been rightly condemned, as they most certainly breached the trust of their employer and its customers.

## WHAT IS A UNIT VALUE?

Pooled investment funds (which include mutual and segregated funds of insurance companies) are allocated to investors as units. The unit value is determined, at the first cut, as the total value of the pooled investment fund divided by the number of outstanding units. So far, so good – this does not appear to be a difficult concept. Clearly, the unit value of a pooled fund is a function of the total market value of the fund.

But how is the total market value of the pooled fund determined?

Here’s where things get tricky. Pooled funds usually have tens of millions (often hundreds of millions or even billions) invested in a basket of securities, appropriate to the investment objectives of the fund. It is a massive computational undertaking to determine the value of those funds each day. Fortunately, computers make the job much simpler – but there is still much room for variance or error.

Ultimate responsibility for this calculation usually rests with a custodial trustee. From a practical perspective, a trustee usually accepts the calculations of total market value performed by the fund

manager on a daily basis. In a perfect world, all fund managers would use exactly the same methodology for calculating this value – say the sum of the market values of the securities in the fund, on a recognized exchange, at the close of business (which is pretty close to how most fund managers actually say they calculate the market value).

Okay, which exchange? At the close of business of whom, and where? What if the

## STAGGERING STATS

❖ *Between 1990 - 1999, the amount Provincial Governments spent on drugs increased by 87%, the largest increase of any segment of health care. Hospitals increased 16%, Physicians 30%*

SOURCE: INTERIM REPORT OF PROVINCIAL AND TERRITORIAL MINISTERS OF HEALTH, JUNE 2000

## PEOPLE PRAISE

Andrea Rothe, a Consultant in Health Lambert Benefits Consulting’s Vancouver office, has been awarded her Certificate of Academic Achievement – Group Benefits from the International Foundation of Employee Benefit Plans and Dalhousie University. Andrea has completed 5 of the 10 core courses towards completion of the CEBS (Certified Employee Benefit Specialist) designation, the most widely recognized and highly respected designation in the employee benefits field. This program provides knowledge of employee benefit principles and concepts, which affords valuable insight into the work that we do at Heath. In her role as a Consultant, Andrea is responsible for plan design, technical guidance, client service, underwriting assessment and negotiations. We are very pleased for this opportunity to extend our congratulations to Andrea for her achievement, and recognition of the hard work she has put into earning her Certificate.



security is “thinly traded” (i.e. the last market transaction happened a significant time in the past). Does a manager have a duty to fund investors to formulate a more appropriate market value for a security than a dated buy/sell transaction? In



a global marketplace these are very important questions. Particularly since the fund manager is closely related to the fund distributor (usually they are the same), and the fund distributor is a party to every purchase or redemption transaction of a pooled fund.

In the Transamerica case, the exchange was the NASDAQ (Chicago) and the close of business was that of ING (Luxembourg, Europe). Oops! – Time zone difference = arbitrage opportunity!

In the RT Capital case the managers manipulated thinly traded stock to inflate market values and thus increase the unit values. This is actually a curious situation – most fund manager’s methodologies allow some wriggle room to tweak a dated buy/sell value with a more appropriate value. A manual tweak would not be illegal, but stock manipulation is.

If a fund manager can tweak input “market” values within a fund, couldn’t any value be tweaked? For instance, if a funds redemptions the next day were expected to exceed the purchases, couldn’t the fund realize an additional cash gain if the values were tweaked a little lower? You bet (perhaps literally!). Under the valuation methodology disclosed by many fund managers it would be possible to select, as

a tweak, a market value that traded lower in a later time zone on a foreign exchange. In addition, if some late-breaking news suggested that a particular stock value would fall heavily on opening of the local exchange, there may exist a strong justification

for tweaking such a stock’s value within a portfolio.

It is also important to remember that after the unit value is established for the next day, that value remains the purchase/redemption value for units of the fund, until a particular cutoff time. Fluctuations in stock values during that day will have no impact on unit values. A sharp drop in markets on opening would create an arbitrage opportunity if mutual fund units could be sold on that same date. This is the primary reason why there is usually up to three days for a redemption to be settled.

So what is a unit value? It is two things. If you are purchasing or redeeming units of a pooled investment, it is the purchase/redemption price offered by the fund

distributor. If you are holding units, it represents an estimate of the value of your holdings. There is one thing that the unit value is not – it is not a market value. In fact, pooled fund units are not traded in any market, transactions always occur only between the fund distributor and the individual purchasing or redeeming units, in accordance with the contractual terms established by the fund distributor.

Now that you know more about unit values you might be a little worried. A little worried is perhaps not a bad thing – it should encourage vigilance and a willingness to ask questions. However, don’t lose sleep over the matter. The Canadian financial system has many checks and balances that are generally effective. The most fundamental, perhaps, is the relatively high level of integrity of our financial institutions, as shown by the Transamerica affair. This together with a demonstration of a degree of vigilance and a willingness to prosecute on the part of regulators, as was the case in the RT Capital affair, suggests that we should retain overall confidence in the pooled investment system. Nevertheless, it might not hurt to call for some broadly applicable standards for the determination of unit values.

## PROVIDER FILES

**GREAT-WEST LIFE** is allowing Manulife’s advisors to market Great-West Life’s Small Group Products. Similarly, **MANULIFE** is allowing Great-West Life to market some of their individual insurance products. This the latest in a series of such alliances by insurance companies

**CANADA LIFE**’s group insurance claims payment centers have changed for clients from British Columbia to Ontario. Effective immediately claims adjudication is done from the Regina office. Claims processing currently done in Montreal and Halifax is not affected.

**CLARICA** has announced a new 'Long Term Care' product. You buy a "Weekly Income Benefit" of \$150 to \$2,000, that is paid out as income if two or more of six daily life activities are impaired. Payment periods can be 100, 150, 200, or 250 days. Unlimited coverage is also available. When approved the claimant can spend the money for caregiver support in the home, or where it best suits their needs. The product is currently only available from Clarica's career agents but one can see the potential for this becoming a group insurance product marketed by many insurers.

**MARITIME LIFE's** drug claims payment practice is to cover only treatments and distribution methods approved by the Canadian Medical Association. This reminder to their clients was prompted by the creation of Internet based 'drug stores'. One can order drugs by completing an online health questionnaire and for a consulting fee, up to \$85 US, a doctor will authorize a prescription. One US based Web site was recently selling 90 capsules of

Xenical for \$407.37 US, including the consultation fee. The same quantity filled in Ontario was estimated at \$163.22 CDN.

**LONDON LIFE**, along with many other insurers, has developed revised privacy guidelines affecting the release of plan-member claims information. As of January 1, 2001 the new federal Personal Information Protection and Electronic Documents Act does not allow insurance company claims reports, issued to plan sponsors or consultants, to include claims data that can identify a plan member. Detailed claims listings will not be able to show personal employee information (name, certificate number, age and gender). Copies of Explanation of Benefits (EOB) that employers/plan sponsors may have received in the past will now be sent to a plan member's home address. For further details on this go to

[www.privcom.gc.ca/english/o2\\_o6\\_o1\\_e.htm](http://www.privcom.gc.ca/english/o2_o6_o1_e.htm)

or

[www.privcom.gc.ca/francais/o2\\_o6\\_o1\\_f.htm](http://www.privcom.gc.ca/francais/o2_o6_o1_f.htm)

 Heath Lambert Benefits Consulting Inc.

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

**VANCOUVER OFFICE**

403 – 555 West 8th Avenue  
Vancouver, BC V5Z 1C6  
Tel: 604-877-0488  
Fax: 604-877-0325  
Toll Free: 877-HEATH-BC

**WINNIPEG OFFICE**

11 Wethersfield Road  
Winnipeg, MB R3P 2G8  
Tel: 204-487-1300  
Fax: 204-487-0055  
Toll Free: 877-HEATH-WG

**TORONTO OFFICE**

305 – 191 The West Mall  
Toronto, ON M9C 5K8  
Tel: 416-620-0779  
Fax: 416-620-9416  
Toll Free: 877-HEATH-TO

**OTTAWA OFFICE**

1203 – 99 Metcalfe Street  
Ottawa, ON K1P 6L7  
Tel: 613-238-4272  
Fax: 613-238-3714  
Toll Free: 877-HEATH-OT

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