

# Benefits

CANADA

TO  
SHOP  
OR  
*drop*?  
?

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Conquering the commuting conundrum **p8**

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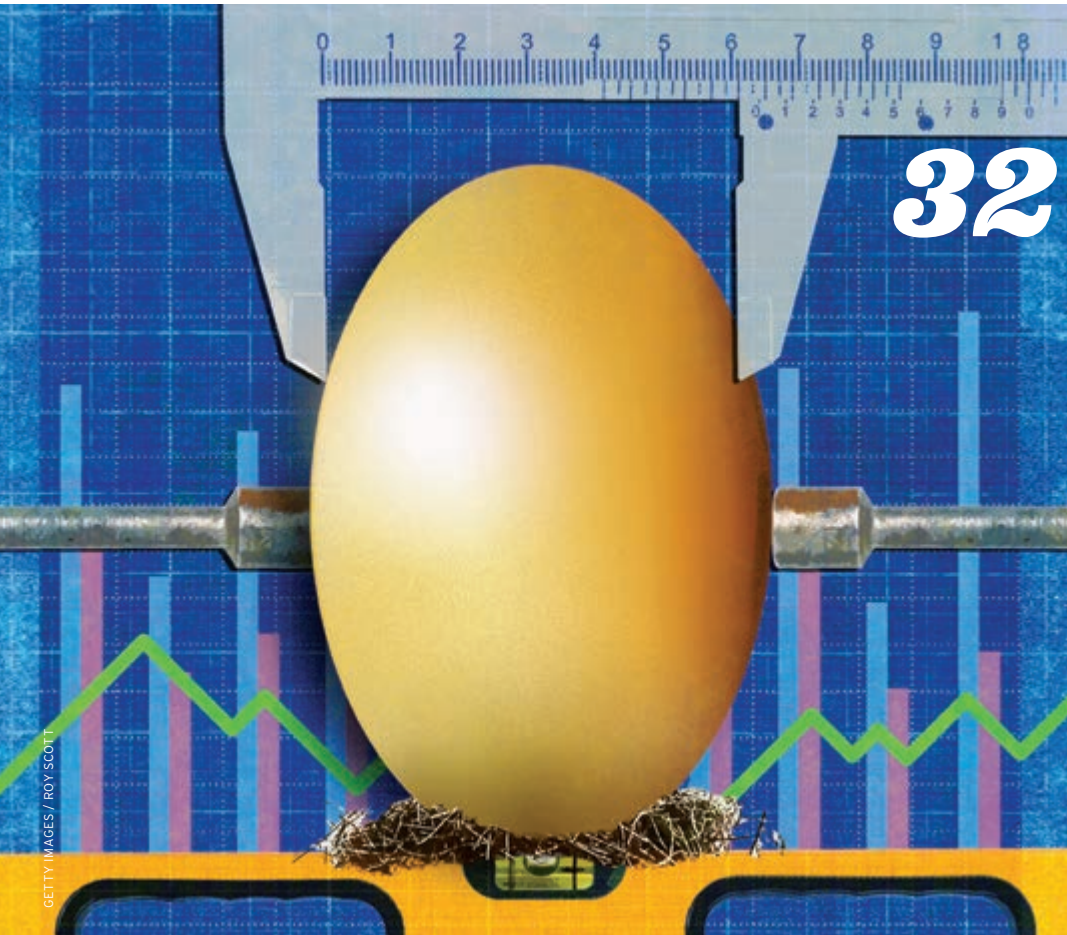
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*Managing Director, Head of Fixed Income*

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Mr. Gauthier joins CIBC Asset Management with over 25 years of industry experience including significant expertise in core plus mandates, derivatives and global fixed income investing. Previously, Mr. Gauthier was Senior Portfolio Manager, Fixed Income and Currencies at Ontario Teachers' Pension Plan and Vice-President, Senior Portfolio Manager at State Street Global Advisors. He earned his Bachelor of Business Administration degree in Finance from the Université du Québec à Montréal and is a CFA charterholder.

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*Vice-President, Client Portfolio Manager - Asset Allocation and Currency Management*

CIBC Asset Management Inc. is pleased to announce the appointment of **Michael Sager** as *Vice-President, Client Portfolio Manager - Asset Allocation and Currency Management*.

Mr. Sager is a member of the Asset Allocation and Currency Management team. He is responsible for developing customized investment solutions for clients, prospects and consultants.

Prior to joining CIBC Asset Management in 2018, Mr. Sager was an Asset Allocation Consultant at Alignvest Investment Management. Previously to this, he was Senior Portfolio Manager at the Canadian Pension Plan Investment Board, and held diverse roles at Wellington Management, J.P. Morgan Asset Management, the European Central Bank and the Bank of England.

Mr. Sager holds a PhD in Economics from the University of Warwick and an Masters of Science degree in Economics from the University of London.

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# Benefits, bullying and the minimum wage

**T**he issue of benefits changes at some Tim Hortons outlets in response to Ontario's boost to the minimum wage to \$14 per hour is a complex one.

On the one hand, the level of outrage at a decision by some Tim Hortons locations to cut employee benefits wasn't a surprise. The move by two locations in Cobourg, Ont., to increase employee contributions to their benefits affected the lowest-paid workers and significantly counteracted the pay raise they received when Ontario boosted the minimum wage to \$14 an hour, ahead of a planned further increase to an hourly rate of \$15 next year.

Ontario Premier Kathleen Wynne led the charge against the franchise owners' actions, which also included eliminating paid breaks. She accused one of the owners of bullying and suggested he should take up his concerns about Ontario's minimum wage policy with her, instead of making his workers suffer.

In making her comments, Wynne was arguably acting in the political realm. The franchise owners, on the face of it, were acting in the business realm. Their actions were arguably a business decision in reaction to a significant increase in costs due to a fairly rapid rise in the minimum wage. From that point of view, it was a bit much for Wynne to level accusations of bullying and to suggest the employer was punishing its workers instead of taking up the issue with her.


But as with many things, the situation isn't that simple. In a letter to employees outlining the changes, the employer did refer to the government's role in the issue. It also faulted Tim Hortons' head office for not helping franchisees cope with the cost increases. The blame-filled comments come as a number of franchisees have been in a dispute with Tim Hortons' corporate owners over a number of issues, including costs imposed on them and price increases. So arguably, franchise owners find themselves in a difficult situation as the new minimum wage

significantly boosts their wage bills while they're unable to take action on their own to do one of the things many people suggest they should do in response: raise prices in their stores. So while the company's head office has attempted to blame franchise owners for the public relations mess that erupted at the beginning of the year, it's clear that it, too, has a role to play.

Further complicating the issue is the fact that the owners of the Cobourg franchises in question, Jeri-Lyn Horton-Joyce and Ron Joyce Jr., are the children of the founders of Tim Hortons. One of those founders, Ron Joyce, is one of Canada's richest people. The optics, then, were quite bad and, with Ontario having actually provided tax relief to small businesses as part of efforts to help them offset the minimum wage increase, the Cobourg franchise owners weren't exactly the victims people were likely to identify and empathize with.

So who's right on the issue? Probably no one, really. Ontario's increases to the minimum wage are happening unusually fast and businesses have very legitimate concerns, but recent events have signalled that, particularly in light of the high cost of living, much of society sympathizes with those who earn the least.

Many people, in fact, have shown themselves to be quite willing to pay more to help support rising minimum wages. Some people, rightly or wrongly, will also argue businesses, including Tim Hortons franchises, have options to handle the wage increase without offsetting cutbacks to benefits.

Some businesses, of course, will be able to handle the increased labour costs better than others, but with other provinces planning to follow Ontario's lead in boosting the minimum wage to at least some degree, they'll want to tread carefully in how they react given the current environment. It's at least reasonable for them to wait to see what the impact is and what their alternatives are before they take actions that affect their employees, even if they're not being bullies when they do act. 



By **Glenn Kauth**  
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## Watch for . . .

### TECH TOOLS

*Benefits Canada* looks at the slew of digital tools recently introduced by insurers in the annual Group Benefits Providers report, coming up in the **April issue**.

### BENEFITS AND PENSION SUMMIT

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# Retirement ages around the world

A recent report by the Organisation for Economic Co-operation and Development tracked how different countries are adapting their pension systems to address increased longevity

Compiled by *Jennifer Paterson*

## Pension ages across OECD countries

In 9 of the 35 OECD countries, the pension ages still differ between men and women, although most have plans to end the distinction

The lowest normal pension age is

**58**

for women in Turkey



The highest normal pension age is

**67**

in Iceland and Norway

## The retirement age is rising to . . .

**67**

in Australia, France, Germany, New Zealand, Spain and the United States

**68**

in Britain and Ireland



**70**

in Iceland



**\$10.4 billion**

The estimated cost of the policy reversal by 2030

Besides **Canada**, 4 other countries – **Luxembourg, Norway, Sweden** and **Switzerland** – don't have a plan to increase the eligibility age for public pensions

## The times they are a changin'

**2016**



**64.3**      **63.4**

OECD average normal pension age

**2060**



**65.8**      **65.5**



**18** high-income OECD countries are increasing the age of eligibility under their public pension systems; **13** of them are boosting it to at least **age 67**

**1970s**



**10.8** years      **14.7** years

How many years are people in OECD countries expected to spend in retirement?

**Today**



**18.1** years      **22.5** years



**5** countries, including **Denmark, Italy** and the **Netherlands**, are indexing their age of eligibility to life expectancy

By *Ryan Murphy*

# CONQUERING THE COMMUTING CONUNDRUM

*From individual travel plans to a dedicated bus route, WSP Global is among employers trying to help smooth employees' trips to work*

**C**ommuting is a part of daily life for almost 16 million Canadians, with the average person spending 24 minutes driving or 45 minutes on public transit to get to work, according to figures from the 2016 census.

The roads are, of course, getting busier as the number of commuters has grown by 3.7 million over the last 20 years. The issue is of particular concern in Canada's biggest cities. According to the census figures, Toronto, Vancouver and Montreal have one-way commutes that are longer than the national average of about 26 minutes. Torontonians spend 34 minutes each way getting to work, compared to about 30 minutes in Montreal and Vancouver.

Commuting, then, can be a significant workplace concern. In the case of one company in Oakville, Ont., it considered both the time and environmental impact of its employees' commutes when it relocated offices about a year ago.

"When it came up time for looking to relocate, we definitely wanted to look at staying within the area and looking, seeing what we could do to move in a location so it would improve the ability of our employees to commute in many different ways," says Duncan Campbell, manager of transportation for highways at engineering consulting company WSP Global Inc.

Campbell notes his former company, MMM Group Ltd., had participated in the Smart Commute program since 2008. Smart Commute, a program of Ontario

government agency Metrolinx, has more than 340 companies working with it to provide assessments of employee commuting habits, action plans outlining better travel options and tools such as discounted transit passes and walking, cycling, telecommuting and carpool programs. Having merged with MMM Group in 2015, WSP is now participating in the program.

## Addressing the challenge

When it came time to move offices, the company assembled a stakeholder group and found commuting was a major issue, according to Campbell.

"So we engaged with our Smart Commute reps at that time. We found a location that seemed to meet the criteria. Location-wise, it was within a very short distance of the GO station," says Campbell, referring to the Toronto area's commuter train service. "And it's in the area of Oakville's midtown core area, where it's going to be developed. So we're kind of on the leading edge going into the midtown core. There's a few developments within the area, and that was a big factor."

The engagement with the local Smart Commute office began in early 2016, says Campbell. "And through that, we ran several different workshops where they

gathered information to do an analysis of some different ways of promoting different forms of commuting and how we could encourage staff to commute in different ways — you know, more responsible."

Part of the company's goal for the new building was to achieve Leadership in Energy and Environmental Design gold certification. To that end, it introduced sustainability aspects, such as designated carpooling areas and electric car-charging stations. WSP also worked with development company First Gulf, Smart Commute, the Town of Oakville and Oakville Transit to start a new bus route in January 2017 to connect the office and surrounding area to the nearby Oakville GO station. The route, a short loop offering service during rush hours, completes a full circuit in about 10 minutes.

About three per cent of the company's approximately 240 employees use the new bus route. While those numbers are fairly low, 27 per cent of employees carpool, with up to about two per cent cycling to work.

The electric car-charging stations have also affected the buying habits of some employees.

"I think it's five or six employees who have electric vehicles or hybrid vehicles. And we've actually noticed that some employees have actually switched. So when they've gone to buy a new vehicle, they've actually taken that into account and bought," says Campbell, referring to hybrid or electric cars.

The carpooling numbers were greater than expected, according to Shveta Shukla, an environmental planner at



## COMMUTING IN CANADA

**24%**

Workers in Toronto who take transit, the highest percentage in Canada

**2%**

Workers in Saguenay, Que., who take transit, the lowest percentage in Canada

**12%**

Percentage of Canadians who commute to work via public transit

Source: 2016 Canadian census

▲ Aiming to cycle to work throughout the year, WSP employee Jeff Cawte has three different bikes to meet changing weather conditions. His winter bike, seen here, has studded tires. At WSP, he has one locker to store his bike and another for his clothes, as well as access to a shower. Cawte says he enjoys his almost 70-kilometre bike commute because it allows him to build his workout into his day. 'I like to tell people I am 60 years old, 50 pounds overweight, and if I can do it, everyone can,' he says.

WSP and the office's Smart Commute representative. She says the company only expected 15 per cent of employees to carpool, compared to the 27 per cent who are actually doing it.

"And also, drive-alone trips have dropped to 62 per cent with the move, compared to 76 per cent who had originally planned to drive alone," says Shukla.

WSP and Smart Commute also developed individual commuting plans for more than 30 employees to help them find their way to work in the most efficient way. The plans consider issues such as employees' mode of travel, where they're coming from and the best routes and times available to them, says Campbell.

### The employer's role

So why would an employer spend so much time on commuting issues? Besides the environmental considerations, commuting affects employers in a number of ways, including employee morale and talent retention, according to one Vancouver consultant.

"Employers have an interest in ensuring employees have a smooth commute, right? You want your employees to come

to work happy to be there, relatively relaxed, not completely stressed about traffic or trying to plan their day so that they leave before the traffic starts or they can catch that bus before it gets too full or whatever. So you want your employees to not necessarily be bothered with those types of anxieties or worries," says Cissy Pau, principal consultant at Clear HR Consulting Inc.

Pau notes that while it's not always possible for smaller companies to do much about commutes, employers should try to do whatever they can.

"I think employers should try, if possible and they have the means to, to make that commute easier, because all that's going to do is allow you to attract and retain staff better," she says. "If people know that you're concerned about their commutes, that you're concerned about them, you're thinking about their well-being and their welfare, they will think, 'Well, that's a good employer.'"


Current trends, according to Pau, include carpooling and encouraging employees to bike to work.

"We have some clients that will encourage this more green philosophy.

So they're encouraging people to walk to work or bike to work or subsidizing employees with bike equipment or paying for their helmets or their wet gear for riding their bikes, just to encourage more people to do that," she says.

Other trends include eliminating commutes, at least partially, through work-from-home options. Employers have also adopted flexible start times to allow employees to avoid rush hour.

The benefits of options like carpooling also include improved camaraderie, according to Anna Basit, program co-ordinator at Metrolinx. Some people, she notes, have found sharing a ride to work has helped foster better personal and working relationships.

And while it may not be an employer's first priority, Pau feels commuting is something employers should consider. "It's not going to get any better unless our transportation infrastructure or transit systems are going to be that much more improved, and that's not going to be an overnight process," she says. 

**Ryan Murphy is an associate editor at *Benefits Canada*: ryan.murphy@tc.tc.**



# TO SHOP OR *drop*??

**W**hen Sears Canada Inc. announced it was going to liquidate its stores in 2017, the chain's demise was a big concern for pension plan members worried about a big deficit in the company's defined benefit plan. But also among the parties affected were some of Canada's largest pension funds, which own more than two dozen shopping centres that just lost a big tenant.

"It's a challenge globally, what's going on in retailing," says David Paine, global co-head of real estate at Aberdeen Standard Investments.

Cadillac Fairview Corp. Ltd. and Ivanhoé Cambridge, the real estate investment arms of the Ontario Teachers' Pension Plan and the Caisse de dépôt et placement du Québec, respectively, felt the sting particularly harshly, with nine instances of exposure to a closing Sears location each.

The steady income a rental property like a mall represents is hypothetically ideal for a pension plan, as long as the conditions are right, says Joe Cerullo, senior consultant at Segal Rogerscasey Canada.

"Sounds positive, but we all saw what happened to Target, where they didn't execute properly," he says of another retail failure that left a large number

of empty spaces for the country's malls to try and fill.

The dance to accommodate the latest big-box failure is becoming all too familiar, says Brendan George, a partner at George & Bell Consulting. "This isn't the first time this has happened," he says, noting the fall of Future Shop and the current worries surrounding Toys "R" Us Inc.

George says he has been discussing how pension plans' real estate fund managers can deal with the ongoing problem. The answer for some is to tilt real estate portfolios away from malls towards more industrial and warehouse properties as a way of following the trend of online shopping, he says.

At the same time, the immediate situation isn't necessarily dire for mall owners. Even in the case of Target Canada Co., if the right covenant was in place — which in many situations was the case — the retailer still had to make good on its two-year leases, says Cerullo.

And while shopping centres are under pressure, it appears some pension funds are still considering them as options for investment. Even amid the gloomy predictions for smaller shopping centres in secondary markets, just last month, a New



By *Martha Porado*

## ***The demise of Sears Canada is just the latest pressure point on shopping malls as investors, including the many pension funds active in the area, watch out for how the sector will adapt***

Brunswick-based real estate investment trust, Plaza Retail REIT, announced a deal to co-own two plazas in the Moncton, N.B., area with an unnamed Canadian pension fund.

It's clear, however, that many malls will be looking to reconfigure their properties to adapt to the evolving retail environment. But what are those new uses to be? And for those pension plans that don't own malls outright, what should they be thinking about when it comes to their investments in commercial real estate?

### **Divide and conquer**

"Do I think the department store in its current form is going to be around? I suspect not," says Paine.

Owners and managers, however, are still eager to find a traditional tenant willing to take on the space, says George.

"They're looking to ideally re-lease it to a big tenant, but if that doesn't work, they have to renovate," he says. If they're able to find a new occupant, a silver lining is that Sears was likely paying lower rents than current market rates, he says, noting that finding a new tenant able to pay more could absorb

some of the sting of having to make a change.

Slicing up the space might be a better option in the long run, says George. "I think you have the same risk, whether it's Nordstrom or Holt Renfrew or whatever it ends up being. If you're going to replace Sears with another big department store, you have very similar risks."

One Cadillac Fairview property most Canadians know by name dealt with the closure of a Sears location before the chain went bust. In its place, the Toronto Eaton Centre brought in Nordstrom Inc., a more upscale department store that now fills only a fraction of the space Sears once took up. Originally about 75,000 square metres, a large portion of it became office space and, until recently, served as Sears Canada's corporate headquarters. In early March, the Bank of Montreal announced a plan to build a large new complex in the space vacated by Sears.

As for Nordstrom, it occupies about 20,000 square metres, with Uniqlo Co. Ltd., a recently arrived Japanese clothier, taking up about 2,600 square metres. H&M took another 1,900 square metres as part of its latest renovation, and a two-level Samsung flagship store moved in at the end of 2017

## THE HARDER SIDE OF SEARS

Number of properties owned by select Canadian pension funds with Sears locations

British Columbia Investment Management Corp.:

3

Caisse de dépôt et placement du Québec (Ivanhoé Cambridge):

9

Ontario Teachers' Pension Plan (Cadillac Fairview):

9

Ontario Municipal Employees Retirement System (Oxford Properties):

5

to take up a similar amount. The remaining space is now a common atrium area and hallway.

Despite the shuffling of the decks and the reduced footprint of the anchor tenant, Cerullo notes the merits of bringing in a higher-end chain like Nordstrom. "Nordstrom was a good decision, because high-end retail in North America is actually very buoyant."

### New experiences

Property owners are also experimenting with creating more experiential reasons for customers to visit and stay once they're at the mall. Getting that combination right isn't going to be easy, says Paine.

"From a landlord's perspective, you're going to have to invest a lot of energy in selecting the right operator who's creative enough to morph whatever the mix is," he says.

There won't be an immediate solution, he adds, noting successful managers will need to be nimble enough to know when to move on from something that isn't working as they consider everything from trampoline areas to ping-pong clubs.

"My experience is, [experienced-based attractions] are viable for a period, but they require a lot more active management," says Paine, who questions whether the U.S. suburban malls that are having so much trouble staying afloat will be able to shift to those new uses.

When it comes to some of the options available, Canada's largest chain of movie theatres offers an example of how a business can make use of a large space and create multiple reasons for customers to stay.

"At Cineplex, we're right now going through an exercise of diversifying our business, to transform ourselves from what was previously primarily a movie theatre company into more of an entertainment company," says Sarah Van Lange, director of communications for Cineplex Entertainment. "And as part of that, we're modifying and adding to our theatre network, as well as opening up different types of businesses that leverage our skills and expertise."

As part of its new strategy, Cineplex is aiming to draw in and keep customers through a gaming,

entertainment and food venue called the Rec Room. It has four locations across the country, with two more opening in 2018.

"They can go for a meal. They can go for live entertainment. Each location has a live performance space. They could be going for a special event. In the case of the [Toronto location], they could be going for a beer before heading to a Jays game. So there's a number of reasons to go, which brings in a number of different revenue streams," says Van Lange.

The Rec Room provides options at both ends of the video game spectrum, as it features both cutting-edge virtual reality experiences and nostalgic arcade games.

In Cerullo's view, Cineplex is trying to be what malls need to become: a place for people to spend money in multiple ways at locations where they naturally gravitate to in their daily lives.

The shift that's underway offers a chance to grow, he says. "For the pension plans, it's that opportunity. If you get it right, you make good money on it. If you get it wrong, you better find some way to change that."

### Breaking old ground

Real estate has generally become a more complicated area for institutional investors over the years, says Paine. While it may have been adequate in the past to tick a box by simply making an allocation to a particular type of space, there are more issues for them to consider today.

"Now, the portfolio is changing quite dramatically," says Paine. "You've got new areas of student accommodation. Residential, rental, a whole raft of hotels [have] become a much more institutionally acceptable choice. So it's a big change, just from the point of view of an investment manager, [to consider] what do we actually take the exposure to?"

As part of the rearrangement, revamping existing spaces to accommodate the expanding physical needs of online retailers could be one option for many malls, says Cerullo.

"Malls can be converted into distribution centres for someone like Amazon," he says. As well, the parking lots attached to malls, which typically aren't a big focus, still represent valuable land mall owners

## REAL ESTATE RETURNS EDGING DOWNWARDS

While there are obvious pressures on the retail sector, how has real estate performed more generally for institutional investors? Recent data from Global Manager Research on gross median annualized returns for 27 funds qualified for Canadian institutional investors found the results have declined in comparison to earlier in the decade:



could develop into residential space, he adds.

Indeed, with autonomous cars on the horizon, the need for parking lots could disappear to a large extent, says Cerullo.

Some mall owners have already started to work on the transformation to residential uses. In December, a Reuters report noted a number of owners, including Cadillac Fairview and the Ontario Municipal Employees Retirement System's Oxford Properties, that are planning to add residential units. In Oxford's case, reduced demand for parking is a factor, the Reuters report noted.

But when it comes to potential industrial uses, not everyone agrees that mall spaces would work for the last-mile delivery logistics operations of online retailers. "Some of it's pretty idealistic," says Ed Strapagiel, a Toronto-based retail consultant.

Amazon, he adds, is "quite happy in industrial settings and warehouses that are off the beaten track, where the real estate is far cheaper and the access in terms of trucks, especially, is much better than would be the case at a mall."

### **A coming sting?**

A scenario like Sears highlights the need for plan sponsors to do their homework on major trends that can affect their portfolios, says Janet Rabovsky, a partner at Ellement.

She notes Target's exit from Canada put money managers on notice and suggests that, as a result, investors weren't as surprised and were in a better position when Sears suffered its own meltdown.

Apart from the troubles some bigger stores are seeing, other parts of the retail sector are quite healthy, says Rabovsky, adding the big push into logistics centres serving online operations is a good example of how to handle real estate in the current environment.

Investors do have a number of issues to consider, however. With the closure of a large number of anchor stores, the United States is experiencing a particularly big contraction in the retail sector, says Paine.

"The U.S. has got a lot of floor space per capita, so it's hitting the wall a bit earlier, because of that, as sales go on," he says.

And the impact of store closures goes beyond the pension funds that directly own mall properties. The retail contraction could also have an impact on commercial mortgage-backed securities through reduced returns and possible defaults, says George.

"If you've loaned money to some of these big malls, when they get into trouble, some of the mortgages start to default, and that's where you get into trouble," he says.

George has seen a shift in mortgage funds away from retail properties towards residential and industrial pursuits. "But then, the gain is slow. If you already own a bunch of mortgages on retail, you're not going to be able to change that quickly," he says.

"There's definitely going to be pressure on returns and even default concerns on the mortgage side," he adds.

For smaller pension funds, however, it's possible to mitigate the issue while still seeking the diversification real estate investments provide, says Mohamed Karmali, consultant and lead on investment management research at Accompass Inc. Rather than purchasing mortgage-backed securities or real estate investment trusts, he says, "for the smaller funds . . . we generally recommend pooled investment vehicles into direct real estate."



**TIM BELLMAN**  
Head of Global Research  
Invesco Real Estate

### **Why is global real estate on the rise with Canadian plan sponsors?**

In an environment of low interest rates and high equity-market valuations, pension investors are actively looking for options that can meet their return and income requirements. Many have turned to domestic real estate – but the supply of institutional-quality core investment opportunities has fallen short of the demand. As a result, plan sponsors are turning to global real estate. Now what started as a "push" born out of necessity has become a "pull" towards the attractive breadth of real estate investment opportunities available around the world and the risk-reducing benefits of global diversification. Today, with both listed and direct solutions available, pension investors have an unprecedented opportunity to build a global real estate portfolio that achieves their plan's objectives.

### **How are new technology trends affecting global real estate investing?**

Often, it's a good news/bad news story. For example, e-commerce and the sharing economy are boosting leasing demand for industrial, data centre and creative office properties but are a headwind for some retail properties. Similarly, job automation and artificial intelligence benefit office leasing demand in tech-centric locations but are a net negative for back offices. Autonomous trucks that can drive further without stopping could reconfigure supply chains, robots have the potential to reduce the number of people working in warehouses and therefore the amount of space allocated to parking, and drones may prompt changes to building design and generate roof income for offices. We'll be closely monitoring the impact of all of these trends – and others that emerge in the future.

He continues: "These vehicles are generally pretty diversified, so they'll be invested in several different sectors like commercial, office, retail and multi-residential, and typically there will be a 10 to 15 per cent allocation to the retail sector." Along with the built-in diversity of such a fund, including a variety of tenants should further diversify even



### A TRANSFORMATION UNDERWAY

Movie theatres are hardly a new feature at a shopping mall, but they are one aspect of the transformation that's underway.

In late January, Cadillac Fairview announced the transformation of a former retail space to that use at the premium end of the market.

According to a news release, Landmark Cinemas of Canada Inc. will open a premium movie theatre at Cadillac Fairview's Market Mall in Calgary in 2019. The space formerly housed a Staples Canada Inc. store.


The premium aspects include powered recliner seating with an extended footrest. Customers can also reserve their seats in advance. Cadillac Fairview touted the new theatre as being part of the mall's "ongoing reinvention," which includes a new Saks Off 5th location. Ivanhoé Cambridge is also part of the partnership with Landmark Cinemas and Cadillac Fairview.

the allocation to retail, he says. That double diversification then cushions investors from taking much of a hit from a closure like Sears in comparison to what they may experience with a commercial mortgage-backed security.

Further, for those plans that include commercial mortgage-backed securities, they would typically make up no more than five per cent of the fixed-income segment of their portfolio and therefore not cause a huge dent, says Karmali.

Even so, because of the uneasiness surrounding them, investors are likely to be more cautious about such investments in the U.S. retail sector, says Steve Jellinek, vice-president of commercial mortgage-backed securities research at Morningstar Credit Ratings.

Traditional mall anchors are now a warning signal to investors, he says. "You do still have a general uneasiness around certain mall tenants that are downsizing and consolidating, like Sears, JCPenny and Macy's."

If a mall has more than one of those stores, investors will steer clear, he adds. "They're looking for more diversity." 

**Martha Porado is an associate editor at Benefits Canada: [martha.porado@tc.tc](mailto:martha.porado@tc.tc).**

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Prior to joining Eckler, Naomi was Head of Investment, Asia Pacific, for a global consulting firm.

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#### JAMES WELLS

Director, Institutional Business Development and Client Relationships, Sun Life Global Investments



Anne Meloche, Head of Institutional Business at Sun Life Global Investments is pleased to announce the appointment of James Wells, Director, Institutional Business Development and Client Relationships, Western Canada.

James has over 10 years of experience in the investment and group retirement savings industry, most recently as Principal at a large consulting firm. He brings a wealth of investment knowledge and extensive experience working with DC plan sponsors.

Based in Vancouver, James will be responsible for business development and relationship management for Western Canada. He will liaise with plan sponsors, consultants and group advisors to promote our investment solutions and grow the Defined Contribution (DC) asset business in this region.

James' strong track record in relationship management and experience in institutional investments make him a welcome addition to our team.

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tc Health  
Consulting Inc.



**Wayne Millar,**  
*vice-president,*  
*marketing and*  
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**SPEAKER:** Lisa Taylor, *president,* Challenge Factory

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# MANY HAPPY (TAX) RETURNS

*By Jennifer Paterson*

**Increased longevity, societal shifts are sparking calls for reforms to provisions ranging from the factor of nine to withdrawal requirements for retirement savings**

**O**ver the past 25 years, Canada's retirement system has evolved significantly through new funding frameworks and federal and provincial reforms to facilitate innovation in plan design. And with Canadians living and working longer and investment returns predicted to soften, it's no surprise the pension industry is calling for an update to the Income Tax Act to bring it in line with societal trends.

A subcommittee of the national policy committee of the Association of Canadian Pension Management (ACPM) has taken on the task of identifying the necessary changes. "We went for consultation across the country as part of our national sessions," says Susan Nickerson, a partner in

the pensions and employment practice at Torys LLP in Toronto and a member of the subcommittee. "We had a lot of plan administrators show up for these and we had very active dialogue across the country."

So what tax changes would the pension industry like to see?

### **Updating the factor of nine**

On the accumulation side, many industry players agree that the pension adjustment calculation using the factor-of-nine equivalency test is out of date. A key element of how the tax system works for registered savings plans, the government introduced the provision in the early 1990s to create a level playing field between defined benefit pensions and capital accumulation plans in terms of the tax-deferral

GETTY IMAGES / MEDIAPHOTOS

impact, says Nickerson. “What we understand as the factor of nine was meant to equate approximately to the aggregate contributions needed over a full career to provide a pension benefit comparable to an ideal plan,” she says, noting that multiplying the maximum two per cent benefit accrual by nine reflected a capital accumulation plan contribution ceiling of 18 per cent of annual earnings.

Initially, that value reflected the discount rate, inflation and life expectancy, but those factors have all changed dramatically in the past 25 years. While the ACPM views the factor of nine as out of date and overly simplistic, Nickerson believes it’s important not to move to something that’s too complex.

“We think it should be somewhere in the range of 12 to 15, but it’s figuring out what’s the best way to do that,” she says.

“You could consider doing it based on key features of the design of the plan or you could look at it in terms of the age of the member, having the factor increasing as you age — potentially over decades.”

The mechanism is unfair to people saving in defined contribution pensions or registered retirement savings plans, says Bill Robson, president and chief executive officer of the C.D. Howe Institute, which published a report in November that suggested raising the equivalency factor to about 20. “It’s just far more expensive now in terms of the amount you have to save in order to get that dollar of income in retirement,” says Robson.

“So if you updated the factor of nine for current circumstances, the RRSP limit expressed in terms

of annual income would be 40 per cent, not 18,” he adds. “And if you benchmarked it to the comprehensive plan, it would be 50 per cent. So much, much, much higher.”

Dominique Roelants, the executive officer of British Columbia’s college, public service and teachers’ pension boards, says the problem with the factor of nine is more than just the number. In his view, it raises a significant issue for people who aren’t saving for retirement until later in life. “We’ve got lots of people who have nothing in their RRSPs at 45 years old, but they have huge RRSP room,” he says. “And that RRSP room is never adjusted for inflation or for potential investment returns. So that’s the problem that needs to be addressed.”

If the government indexed RRSP room, late savers would be able to accumulate tax-free savings in the same way as someone who started saving much earlier, says Roelants. “Let’s imagine I’m 20 years old and I earn \$30,000. I have 18 per cent of that, so I’m able to save \$5,400. But I want to go to Hawaii for holiday or buy a boat or pay off my house, so you have that \$5,400 in RRSP room. Well, 25 years later, if you haven’t contributed to an RRSP, you still have that \$5,400 of RRSP room from 25 years ago, and it’s still \$5,400, even though inflation in that time period means that \$5,400 is probably worth about \$2,000 in current dollars.

“At the very least, I would say the government ought to be looking at adjusting people’s RRSP room by inflation or, alternatively, by some proxy of investment returns,” he adds. “So it could be 10-year government of Canada bond yields. That’s probably the safest one.”

### Raising the maximum age to withdraw registered pension savings

On the decumulation side, the Income Tax Act forces Canadians to start withdrawing from their registered retirement plans no later than the end of the calendar year in which they turn 71. But given current longevity projections and an environment of softening investment returns and interest rates, the government should raise the age limit to provide more flexibility around Canadians’ retirement savings, says Nickerson, who suggests increasing it to 73 or 75.

The latest census data from Statistics Canada found about a fifth of Canadians older than age 65 worked at some point in 2015. Cara Bourdeau, senior human resources consultant at Western University, has noticed that trend as the school’s professors look to push out their retirement dates. “Many academics would like to continue working, not just beyond 65 but beyond 71, and some of them do,” she says. “But they then find themselves in a challenging position

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#### WHAT’S THE FACTOR OF NINE?

First adopted in 1990, the factor of nine uses a hypothetical defined benefit plan in which saving nine per cent of annual earnings will let a person buy an annuity equal to one per cent of pre-retirement income. The Income Tax Act allows a defined benefit plan member to accrue a maximum annuity of two per cent of final earnings in the year of accrual. The income tax provision limits participants in defined contribution or registered retirement savings plans to contributions of up to 18 per cent of their earnings per year, which is equal to nine times two per cent.

2%

18%

**“At the very least, I would say the government ought to be looking at adjusting people’s RRSP room by inflation or, alternatively, by some proxy of investment returns.”**

around having to draw pension income in addition to their regular income.”

The Manitoba Teachers’ Retirement Allowances Fund doesn’t have a lot of teachers working past the normal retirement age, but Brad Prokop, its director of actuarial services, believes it’s time to raise the maximum age to recognize increased life expectancy since the 1990s. “To the extent that it would give an option to continue to accrue a benefit where they otherwise wouldn’t, that would be something that could potentially be beneficial,” he says.

Robson agrees, comparing the additional investment risks some people take in retirement to a few extra years of employer-assisted saving. “You think about your return on investment or the certainty of getting a benefit of shifting to a much riskier asset class with your investment, as opposed to delaying retirement for a few months,” he says. “The former is risky. . . . The latter, it works. . . . A small delay in retirement could do so much for you, by comparison with desperately trying to get a few more basis points of return. It’s basically in the bag, if you work a little longer, as compared to the different risks people are taking.”

But Robson doesn’t believe the government should set the number in stone, suggesting that moving it to age 73 would be a good start. Some Scandinavian countries are now linking the number to changes in longevity, he adds. “So you can make it a thing that moves over time as we get new information about how long people are living.”

### **Maximum transfer values, target-benefit plans**

If the government updates the factor of nine and the maximum age at which people must draw down registered savings, there will be a domino effect on maximum transfer values as they’ll automatically increase as well. “But looking at each one in isolation, which is what we’ve done at this point, we’re coming to the view that should be repealed,” says Nickerson. “The argument for it would be that plan members who decide to exercise portability rights shouldn’t be disadvantaged in comparison to those who decide to leave their pension entitlements in the plan.”

And with target-benefit plans now on the pension scene, should the government tax them like a defined benefit or a defined contribution plan? The Canada Revenue Agency has indicated it sees them

as defined benefit plans, according to Nickerson, although she notes the Department of Finance will ultimately determine any changes.

The ACPM believes administrators of target-benefit plans should have the choice of which tax rules to adopt. “It would be based on their individual sustainability levers and circumstances,” says Nickerson, noting if the plan focuses more on benefits, the defined benefit tax rules would be better. On the other hand, if the plan emphasizes maintaining contributions, the defined contribution tax rules would be more appropriate. “It really would depend,” she says. “Each plan would make that determination at the outset.”

Greg Hurst, a Vancouver pension consultant, says multi-employer pension plans, which use the defined contribution tax treatment, are akin to target-benefit plans. “So there’s a reasonable argument that, if you’re going to use target-benefit plans . . . maybe you can treat it more like a DC plan, since you’ve got fixed contribution levels coming from members and employers.”

### **Tax changes for CAPs**

The ACPM’s consultation process also includes a number of tax issues dealing specifically with capital accumulation plans. One of them is pension income splitting. “Right now, defined benefit plan members can claim pension income deduction and split payments with a spouse immediately on retirement, but DC plan members have to wait until they reach age 65,” says Nickerson. “So that’s just because they didn’t include variable benefit payments under the definition of qualified pension income for that purpose. We think that should be adjusted. The feedback we’ve gotten on that, too, is that we should apply that to other capital accumulation plans.”

Many in the industry also believe the tax system should permit self-annuitization arrangements for capital accumulation plans. Adam Kehler, manager of pension and benefits at Farm Credit Canada in Regina, says he’s concerned about the lack of options available for defined contribution plan members when it comes to converting their retirement savings into income in a way that protects against longevity.

The company has a closed defined benefit plan and an open defined contribution arrangement, the latter of which tends to include considerably

### **LIFE EXPECTANCY AT BIRTH IN 2015 ACROSS OECD COUNTRIES**

**80.6**

Average across the OECD’s 35 countries

**81.7**

Canada

**83.9**

Japan

**75.7**

Hungary

► Life expectancy at birth is, on average, about 10 years higher today than it was in 1970

► The largest gains since 1970 are in Turkey (24 years), Korea (20 years) and Chile (17 years)

Source: The Organisation for Economic Co-operation and Development’s health statistics, 2017

younger employees. “Where we start to see career employees retire through that DC plan, that’s just very different for us than what it’s been so far with DB,” he says. “It’s really through that lens that we’re saying pretty much any of the tax change proposals that are focused on that would provide our DC plan members with more flexibility and more tax-effective ways to use their retirement savings.”

The ACPM’s consultation also addresses reforms related to contribution errors. Nickerson would like to see the Income Tax Act amended to permit retroactive catch-up contributions, up to the member’s pension adjustment limit for the relevant year. “Right now, if we discover an error with an under contribution, we can only make the contributions to make up for that error on a go-forward [basis] . . . versus going back.”

One example of that would be catching up for lost contributions during maternity leave. While new parents typically aren’t making contributions while on leave, they would have the option, when returning to work, to contribute for some of that period, says Kehler.

“If someone goes away and comes back early in the next calendar year, we’re kind of restricted in


what we can allow them to contribute in for that time of leave, whereas in the DB world, they can buy back that service regardless of the calendar timing. So it’s really just to keep it similar to what we were used to on the DB side and give at least the option for employees to put that money in if they want to.”

Ultimately, Nickerson believes the tax system should do more to consider the evolution of socio-economic factors affecting Canadians today.

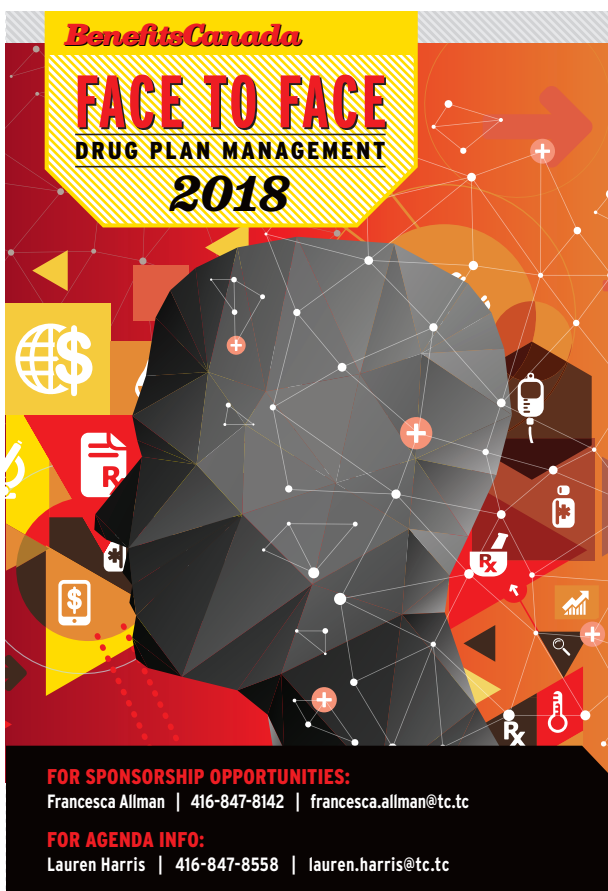
“The revisions to those underlying factors should be approached consistently throughout the act,” she says. “It would be good to have some type of automatic review period, like every five years, that would ensure those assumptions remain appropriate.”

While he notes the value of the discussions, Hurst suggests a lot of the issues have come up in the past.

“There’s nothing wrong with raising it,” he says.

“It’s reasonable and appropriate to do so and it’s good to have this kind of dialogue and discussion, but I’m not sure what kind of appetite the government has for changing these things right now.” 

**Jennifer Paterson is the managing editor of Benefits Canada: [jennifer.paterson@tc.tc](mailto:jennifer.paterson@tc.tc).**



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# PHARMACARE AND PRIVATE PLANS: AN OPPORTUNITY TO SHARE THE RISK?

Canada is one of three developed countries in the world with a universal health-care program that does not include prescription drugs<sup>1</sup> and, as such, medication needs have been met with a patchwork of public and private drug coverage. Although the federal government's current focus is to reduce the cost of prescription drugs,<sup>2</sup> there seems to be renewed discussion on the development of a national pharmacare program. This is likely due to reports by the House of Commons standing committee on health and the parliamentary budget officer on national pharmacare.<sup>3</sup>

In December 2017, Benefits Canada invited a group of benefits plan advisors to the Canadian Leadership Council on Drug Plan Partnerships in Toronto to discuss the impact of national pharmacare on the private health benefit industry.



To kick off the session, **Thy Dinh**, director of health economics and policy at the Conference Board of Canada, briefed the group on **how national pharmacare could involve and affect the health benefits industry.**



She noted that the current Canadian drug coverage landscape includes a mix of public programs and private plans. The recent Conference Board of Canada report *Understanding the Gap: A Pan-Canadian Analysis of Prescription Drug Insurance Coverage*<sup>4</sup> determined that most provinces have some level of coverage for all of their residents and that less than 2% of Canadians, who are primarily in Ontario or Newfoundland and Labrador, are truly uninsured. In addition, 11.3% of Canadians without private insurance do not enrol in public plans, despite being eligible. A survey conducted as part of the study reported that less than 1% of Canadians who received a prescription in the past six months cited cost as a reason for not taking their medication as prescribed. The primary reasons reported were that patients felt they no longer needed their medication (2.3%) or there were side effects, an allergic reaction or the medication was too strong (1.6%).



Joe Farago, executive director of healthcare innovation at Innovative Medicines Canada, notes that “most pharmacare proposals provide a solution without identifying the problem. This report confirms that the current dual system of public and private drug plans serves the bulk of the Canadian population, and identifies a small number of uninsured who would benefit from additional coverage.”

There is no agreed-upon description of what a future pharmacare program could look like, so Dinh proposed three different options for the council’s consideration:

**Status quo:** This would be a mix of provincial and territorial public drug programs, private plans and out-of-pocket spending, each representing approximately a third of the costs. Each program would have a wide variation of drugs that are covered, and the federal government’s role would include coverage of unique populations, transfer of health-care funds and regulation.

**Modify the current system:** This format would increase federal health-care funding to the provinces and territories, which, in turn, would review and adjust their own programs and work together to establish a minimum national formulary. The federal, provincial and territorial governments would work with private insurers and pharmaceutical companies on drug pricing

**One-payer public coverage:** This format would include one national program, which would be a federally funded and administered formulary. Provincial programs would either disappear or be redesigned to become complementary to the federal program. Private insurance would be available only for purchase to cover drugs not covered by the government plan.

### WHAT IS THE POTENTIAL COST OF PHARMACARE?

#### PARLIAMENTARY BUDGET OFFICE ESTIMATE<sup>3</sup>

Current costs incurred by:	Billions
Government	\$11.9
Private insurance	\$9.0
Patients	\$3.6
Eligible for national pharmacare*	\$24.6
<b>Estimated pharmacare cost</b>	<b>\$20.4</b>
<b>Potential pharmacare savings</b>	<b>\$4.2</b>

\*Totals may differ slightly due to rounding.

### MANAGING THE RISK

The concept of pharmacare has become an appealing option to plan sponsors that are feeling the pressure of covering high-cost specialty drugs. “As more high-cost drugs are coming to market for larger populations, private drug plans are being stretched to their limits,” says Suzanne Nagy, drug consulting leader at Mercer Canada.



“If it weren’t for specialty drugs, we wouldn’t be here,” says Mark Goldasic, a principal at Benemax Financial Group Inc. “The problem is really stop-loss pooling. I have large groups whose stop-loss insurance is a third of their health costs, and it is becoming unaffordable.”

Dave Patriarche, president of Mainstay Insurance Brokerage Inc. and founder of Canadian Group Insurance Brokers Inc., notes that “small- to medium-sized private plans are capping more and more because employers are saying, ‘This can’t keep going. . . We can’t keep paying for it.’”

According to many of the advisors on the council, there’s little insurer accountability for pool charges. There’s no way to validate insurers’ pool calculations because when a plan has high-cost, recurring claims, “I have no alternatives and I can’t change carriers,” says Goldasic.



The council discussed engaging the government to help manage high-cost drugs in different ways:

#### High-cost claims

The government plans could reimburse the cost of extremely high-cost specialty or orphan drugs, “which would allow private plans to focus on managing the balance of the maintenance drug costs effectively,” says Sandra Ventin, associate vice-president of Accompass Inc.

#### Government pooling

“Insurance carriers are telling us that our clients’ plan costs are increasing significantly, but when we go to industry conferences, we hear that drug claim cost growth across the industry is stable,” says Chris Pryce, managing director of Human Capital Benefits.

“Perhaps it’s time to pool claims costs more broadly to share the risk,” he adds.

“Maybe it would be better if everyone shares in the overall cost to provide better access on a larger level,” says Kathleen O’Keefe, president of Crillion Benefits Advisory Group Inc.

Currently, if a small-to-medium-sized drug plan experiences a recurring high-cost drug claim, its premiums can change dramatically, whereas if the risk is spread across a bigger group or fully pooled, “the overall cost increase can be affordable and sustainable,” says Patriarche.

The council proposed that the government could administer and manage claims pooling on behalf of private plans. “It could potentially be more efficient and cost-effective, and plan sponsors could pay their pool charges to the government instead of the insurers,” suggests Goldasic.

Alternatively, the government could manage high-cost drug pooling similar to the way the Canada Mortgage and Housing Corporation<sup>6</sup> deals with high-ratio mortgage loan risk or how the Facility Association<sup>7</sup> manages high-risk drivers in the area of automobile insurance.

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#### WHAT COULD PHARMACARE LOOK LIKE?

The council discussed that if pharmacare were to be introduced, then there could be a common formulary across the provinces with a minimum standard of which drugs would be covered, potentially with an income-based deductible. The government would determine which drugs to cover based on efficacy and cost-effectiveness.

Employers could distinguish themselves by paying the income-based deductible for their employees or offer a drug plan that covers drugs the government plans do not include. Because health benefits are a form of tax-effective compensation, employers could also offer enhanced coverage for other products, such as vision care or paramedical treatments.



The benefit of a government drug plan is plan sponsors can let someone else make the decision on high-cost drugs. Employers don't have to determine if an employee gets a high-cost specialty drug. "That's not their core business. With the government making drug coverage decisions, employers can focus on things they do have influence over, such as how to bring employees back to work after a disability or how to accommodate them in the workplace," says Ellen Whelan, principal at Eckler Ltd.

## PROCEED WITH CAUTION

Although the opportunity to shift costs to the government is appealing, some council members offered some cautions about a government-funded pharmacare program.

If the costs of private drug claims are transferred to the government, how will the additional budget be funded? "What is the trade-off?" asks Tim Wade, vice president for eastern Canada at JLT Canada.

"Will there be other additional costs for employers, such as increased taxes?" asks Noel MacKay, director of national benefits consulting, Cowan Insurance Group Ltd.

"If drug funding shifts to a national government plan, Canadian workers with very good private plans could end up losing benefits and coverage of medications," cautions Farago. "Ensuring these Canadians have coverage of the medications they need should be our priority. The current dual system of public and private coverage serves the vast majority of Canadians extremely well."

## AT THE TABLE

**Kevin Ashe,**  
Vice President, Corporate Development,  
Mosey & Mosey

**Paul Beecher,**  
Corporate Manager, Private Healthcare, AbbVie

**Joseph Chan,**  
Vice President, Stem Capital

**Becky Chin,**  
Senior Manager, Private Payer Strategy,  
Amgen Canada

**Paul Crossdale,**  
President, MC&A

**Peter Demangos,**  
Managing Director, PDF Financial Group

**Thy Dinh,**  
Director, Health Economics and Policy,  
The Conference Board of Canada

**Glenn Fabello,**  
Benefit Consultant, Pelorus Benefits Plus

**Joe Farago,**  
Executive Director, Healthcare Innovation,  
Innovative Medicines Canada

**Mark Goldasic,**  
Principal, Benemax Financial Group Inc.

**Noel MacKay,**  
Director, National Benefits Consulting,  
Cowan Insurance Group Ltd.

**Suzanne Nagy,**  
Drug Consulting Leader, Mercer Canada

**Kathleen O'Keefe,**  
President, Crillion Benefits Advisory Group Inc.

**Dave Patriarche,**  
President, Mainstay Insurance Brokerage Inc.

**Chris Pryce,**  
Managing Director, Human Capital Benefits

**Lizann Reitmeier,**  
Health Practice Leader, Conduent

**Kathy Sotirakos,**  
Senior Manager, Market Access Private Stakeholders,  
Amgen Canada

**Sandra Ventin,**  
Associate Vice President, Accompass

**Tim Wade,**  
Vice President, Eastern Canada, JLT Canada

**Andrew Wynn,**  
Senior Manager, Private Healthcare Planning, AbbVie

**Ellen Whelan,**  
Principal, Eckler Ltd.

Moderator: **Suzanne Lepage,** Private Health Plan Strategist, Suzanne Lepage Consulting Inc.

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<sup>1</sup> OECD (2017), Health at a Glance 2017: OECD Indicators, OECD Publishing, Paris.  
[http://dx.doi.org/10.1787/health\\_glance-2017-en](http://dx.doi.org/10.1787/health_glance-2017-en)  
<sup>2</sup> <http://www.cbc.ca/news/health/health-minister-jane-philpott-drug-prices-1.3932254>  
<sup>3</sup> <http://www.pbo-dpb.gc.ca/en/blog/news/Pharmacare>

<sup>4</sup> <http://www.conferenceboard.ca/e-library/abstract.aspx?did=9326>  
<sup>5</sup> <http://www.pbo-dpb.gc.ca/en/blog/news/Pharmacare>  
<sup>6</sup> <https://www.cmhc-schl.gc.ca/en/co/moloin/index.cfm>  
<sup>7</sup> <http://www.facilityassociation.com/>



# A *snapshot* of what's coming down the pike

***From gene therapies to migraine medications, plan sponsors are watching out for what's next after the hepatitis C hump***

*By Sara Tatelman*

**T**he hepatitis C hump is over. Since 2014, Health Canada has approved several promising medications for the disease. While the direct-acting antivirals offer cure rates of more than 90 per cent, they cost tens of thousands of dollars, and benefits plans felt the pinch.

But now, “after an initial spike in treatment requests, claims have levelled off dramatically in the last year,” says Yatin Patel, a pharmacist at the Alberta School Employee Benefit Plan in Edmonton.

Medavie Blue Cross has also seen a significant decline in new patient starts for hepatitis C medications, says Chris Goguen, the insurer’s strategic pharmaceutical partnerships lead in Moncton, N.B. Demand is now one-fifth of the volume it was a year-and-a-half ago, although there may be a slight bump if and when the medications are approved for more indications, says Christine Than, a pharmacist and drug solutions specialist at Aon Hewitt in Montreal.

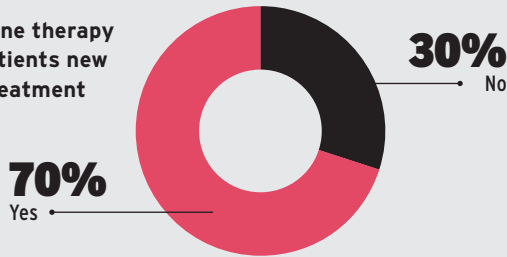
For example, in September 2017, Health Canada expanded the indication of Eplclusa to include

**KEY TRENDS AND ISSUES AFFECTING DRUG PLANS**

**The role of step therapy**

While plan sponsors will face cost pressures from new drugs, they do have options in managing what they're spending in traditional areas. As noted by Express Scripts Canada in its 2016 drug trend report, data shows a significant number of diabetes patients start on more expensive second-line treatments (costing up to **\$3,156** per year) instead of trying a first-line treatment beforehand (costing **\$65** per year). The report suggested step therapy as an option to ensure patients try the first-line therapy before covering the second-line treatment, if clinically necessary.

**Prior use of first-line therapy for diabetes for patients new to a second-line treatment**



**A surprising result for specialty drugs?**

According to Express Scripts Canada's 2016 drug trend report, while specialty drugs continued to be a source of pressure, the cost per prescription actually declined by **6.5%**. Rising utilization of **9.7%** offset that decline, however, to drive overall spending on specialty drugs up by **3.2%**. For traditional drugs, the picture looks quite different:

	Cost per prescription	Utilization	Overall trend
Traditional drugs	<b>1.7%</b>	<b>1.1%</b>	<b>2.8%</b>
Specialty drugs	<b>-6.5%</b>	<b>9.7%</b>	<b>3.2%</b>

The numbers for specialty drugs represent some relief after years of alarm about the fact they make up a large and growing component of spending (**30%**) but just a small percentage of total claims (**2.1%**). The Express Scripts report attributed the recent moderation to strategies aimed at addressing the growth in spending on specialty drugs, including product listing agreements, more robust prior authorization criteria and specialty pharmacy preferred-provider networks. It also noted the impact of reduced spending on hepatitis C drugs following treatment of the first wave of patients. Excluding hepatitis C drugs, spending on specialty drugs continued to rise quite quickly, in large part due to increased utilization:

	Cost per prescription	Utilization	Overall trend
Specialty drugs excluding hepatitis C	<b>-0.4%</b>	<b>11.1%</b>	<b>10.7%</b>

patients also infected with HIV. Similarly, in April 2017, the U.S. Food and Drug Administration approved Harvoni and Sovaldi to treat adolescents. But with relatively few teenagers diagnosed with the disease, Than predicts that, even if Health Canada follows suit, the budget impact will be minor.

In recent years, there was also a concern that PCSK9 inhibitors, which treat high cholesterol, would put a pressure on benefits plans. But the financial impact has been modest. According to data from IQVIA, those drugs make up just 1.3 per cent of private payers' total cholesterol claims costs. For one, PCSK9 inhibitors are only recommended for patients with familial hypercholesterolemia or those with atherosclerotic cardiovascular disease who aren't improving despite being on the maximum dose of statins.

Medavie Blue Cross ended up paying just 10 per cent of anticipated costs for PCSK9 inhibitors, which Goguen attributes to the company's statin adherence model. "Our prior authorizations nurses were able to look, in real time, at members' historical use of statins, which is the low-cost traditional drug used, to determine whether members had actually been adherent to [them] first," he says. If they hadn't been adherent, the insurer wouldn't reimburse them for a PCSK9 prescription.

**New drugs for common conditions**

Looking ahead, plan sponsors should prepare for new biologic drugs for conditions that currently don't have pharmaceutical treatments or may replace existing medications, according to Goguen. When it comes to biologic drugs, new treatments for migraines are in the works for which manufacturers are expected to apply for regulatory approval in the United States by the end of the year, according to Telus Health's spring 2017 report on drugs in the pipeline.

"Migraine is a silent disease," says Than, noting that in North America, 20 per cent of women suffer from some sort of migraine issue, as do six per cent of men. While the new drugs target a subset of that patient population — those suffering from frequent, debilitating migraines — they can still put pressure on benefits plans. For one, they're expensive, at an estimated cost of about \$10,000 per year, according to Than. Furthermore, migraines are often underdiagnosed.

"A lot of people just don't think of consulting," she says, noting that may change as soon as the drugs are on the market. "Same as hepatitis C. Once there's an effective medication that's out on the market, there's press for it, people know about it, there's word of mouth, then more people are going to consult."

The biologic drugs in the works for migraines are, however, quite promising, says Dr. Christine Lay, a

neurologist at the Centre for Headache at Women's College Hospital in Toronto. "The drugs work to reduce the frequency of the migraine and also the severity of the individual migraine attack," she says.

While a number of drugs to address migraines exist already, they sometimes come with side-effects and can take time to be effective, according to Lay. "These drugs seem to have what I call a very early onset of action," she says of some of the new medications in the pipeline.

Further, she adds, a small percentage of patients in trials have shown themselves to be "super responders," who no longer get migraines after starting monthly injections. And as to concerns about costs, Lay says clinicians would likely focus on high-frequency migraine sufferers, rather than prescribing the drugs to people who experience them periodically. "People are very excited, as are we," she says.

Another drug on the horizon in Canada is Eucrisa, which treats eczema by inhibiting the enzyme linked to inflammation. While topical corticosteroids, the go-to therapy for mild to moderate eczema, cost about 25 U.S. cents per gram, Eucrisa is US\$9.67 per gram, according to the Telus Health report. Clinical research is also underway to determine if psoriasis is a secondary indication for the drug. While it would likely be more expensive than topical treatments, it could be significantly cheaper than biologic drugs.

Like migraines, eczema is a common condition. Telus Health noted up to 20 per cent of the population suffers from it. But while new therapies to treat it are pricier than current options, high-cost specialty drugs remain the largest contributor to spending growth, says Patel.

### Gene therapies for rare diseases

The U.S. Food and Drug Administration recently approved three gene therapies for rare diseases, including blood cancers and retinal dystrophy. They're similar to the hepatitis C medications in that they're one-time treatments, but they cost even more. Yescarta treats adults with a type of non-Hodgkin lymphoma and costs US\$373,000. Kymriah, which treats certain kinds of leukemia in children and young adults, costs US\$475,000. And Luxturna, a gene therapy for retinal dystrophy, costs US\$425,000 per eye.

"The good news about them is they can be targeted therapies towards individuals who will benefit from them the most," says Goguen, adding that "from a sustainability and affordability standpoint, it's something that plan sponsors or employers just won't, in many cases, be able to bear."

Health Canada hasn't yet approved those therapies, but rising costs have led some payers to consider alternative funding models. One possibility

## TRENDS AND SPENDS

### Spending trends for the top 10 drug classes

Inflammatory conditions	-11.7%
Diabetes	-13.7%
High blood pressure	1.1%
Depression	-1.2%
Asthma/chronic obstructive pulmonary disease	-5.8%
Infections	-7.5%
Ulcer/reflux	-9.5%
High cholesterol	-3.3%
Cancer	-11.6%
Attention deficit hyperactivity disorder	-14.1%

Source: Express Scripts Canada's 2016 drug trend report


### Some relief on the horizon

So what's the prognosis for the coming years? At *Benefits Canada's* Face to Face Drug Plan Management forum in December, Brad Millson, principal of health access and outcomes at IQVIA, presented the results of his company's forecast for 2017-21. It predicted an average annual rise in drug costs for private plans of 6.1%. He noted, however, that the forecast doesn't account for cost relief provided by developments such as Ontario's new pharmacare program for youth under age 25 and confidential product listing agreements.

In late January, further relief came in the form of a five-year deal between the pan-Canadian Pharmaceutical Alliance and the Canadian Generic Pharmaceutical Association to lower the price of 70 commonly prescribed drugs as of April 1, 2018. While the alliance negotiates prices on behalf of governments when it comes to public drug programs, price cuts of up to 40% will also apply to private plans. The deal effectively modified the alliance's tiered framework for generic drugs that currently prices some products at as low as 15% of the brand equivalent. Under the new framework, a number of drugs will cost as little as 10% of the brand equivalent.

is a pay-for-performance scheme. In the United States, for example, the Centers for Medicare & Medicaid Services will only reimburse for certain drugs if patients respond by the end of the first month of treatment.

Medavie Blue Cross has a number of pay-for-performance agreements in development, but Goguen notes they aren't possible for all therapies. "They need to be done with the right types of drugs when there are clear outcomes you can evaluate," he says.

"There are some cases in oncology where it's quite clear at a certain point in the treatment plan that there's a response or non-response," he adds. "We are [also] seeing it with some of the biologics, with rheumatoid disease and diabetes. It's early days in designing these types of programs." 

Sara Tatelman is a Toronto-based freelance writer.

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# REFINING THE REFERRAL

**Recruitment incentives have their upsides, but employers should consider several issues when implementing them**

By *Brooke Smith*

**E**mployee referral programs sound like a great idea. But are employers actually taking advantage of them?

According to LinkedIn Corp.'s 2017 global recruiting trends report, 48 per cent of employers feel employee referrals are the best source of quality hires. Despite that enthusiasm, employers allocated just nine per cent of their recruitment budgets to employee referral programs.

Some employers are investing in their programs, however. In its case, Toronto-based Score Media Ventures Inc. offers a \$10,000 bonus for employees who help recruit candidates for its engineering division. "It was directly related to the engineering field," says Sally Farrell, senior vice-president of human resources. "The developer market is highly competitive, but we have a strong engineering team. We thought motivating our own employees to look for strong developers to work with them, as well as us, was a win-win."

And, it has worked. Since the program's inception two years ago, the Score has had seven referrals.

## Benefits of a program

Referrals have some clear advantages. "The person being recruited already has a connection to the organization through the person referring, so there's increased potential for engagement," says Anne Peiris, vice-president for compensation at Accompass Inc.

Referral programs are also relatively inexpensive. "Going to external recruiters can be quite costly, depending on how you do it," says Eileen Dooley, vice-president of VF Career Management.

Even non-cash incentives can work well, too. "I've seen companies offer a few extra days' vacation or reduced hours for a week of work, something that you know would incentivize someone that wouldn't eat into the financial budget," says Louisa Benedicto, vice-president for the greater Toronto area at Hays Specialist Recruitment Inc.

Still, a referral isn't as simple as passing along a friend's resumé. Benedicto says the referring employee has to do some due diligence. "Get the employee to have a conversation with the person they want to refer to suss out whether or not they're interested in the

company, the culture and the role," she says.

Employees should be careful about recommending somebody, says Dooley, "not just because you know this person is nice and a good friend of yours. When you recommend somebody, especially if you've said you've personally worked with them, you're part of that hiring decision and your reputation is going into that."


## Implementing a program

For employers thinking of starting a bonus program or wanting to tweak their current offering, there are a number of points to keep in mind. "With referral bonuses, as with a lot of compensation-related things, there should be a clear policy around them," says Peiris. The policy should outline who's eligible for the bonus; which roles it applies to; the value and timing of the payout; and any other stipulations, such as who isn't eligible to participate.

"We do break down the \$10,000 to cover for making slips in judgment," says Farrell of the Score's program. "After three months of employment, the person who referred will be paid the first half. And then after a year, the person who referred will receive the final \$5,000."

It's also useful to be clear on how long the referral program will last. "Most organizations have them for continued periods of time," says Peiris. "But if it's a measure to meet an immediate need, you must be clear [about] how long the referral bonus will be offered. Are you offering it for six months, 12 months, six weeks?"

And while employers may truly be struggling to find candidates, they should avoid positioning it that way when explaining the reason for implementing a program to their employees, says Benedicto.

"It should be positioned as, 'We want to tap into your network. You know our culture. Let's build on it and let's get the right fit.'" 

**Brooke Smith is a Toronto-based freelance writer and editor.**

## EMPLOYERS' TOP RECRUITMENT SOURCES

Employee referrals: **48%**

Third-party websites or online job boards: **46%**

Social professional networks: **40%**

Third-party recruiter/staffing firm: **30%**

Internal hires: **28%**

Source: LinkedIn's 2017 global recruiting trends report



# The benefits of helping employees set a retirement budget



By *Nichola Peterson*

**I**f there's one question human resources professionals constantly hear, it's about how much money people need to retire. The challenge is there's no single right answer, as individuals have different visions of how they want to spend their retirement years. The solution for human resources professionals is to answer a question with another question and ask, "How much do you want — and need — to spend?"

In order to understand how much to save, the starting point should be determining a retirement budget. Not only will such an exercise help employees better plan for the future, it may well give them a greater understanding of and appreciation for their employer-sponsored savings program and improve their financial wellness.

## More accurate retirement planning

Even though people want to know how much they need to put aside for their golden years, that doesn't necessarily mean they're eager to do the math. Those who want a quick and easy answer are welcome to use the standard replacement ratio of 70 per cent of working income as their guide. However, what they need to realize is that goal may not only be unrealistic, but it's probably inappropriate. A 60 per cent or even 50 per cent replacement ratio may be quite adequate for those who have a moderate household income and want to maintain their lifestyle in retirement. In short, it pays to do the math.

The budgeting approach puts the initial focus on retirement spending. It leads to a more accurate determination of an appropriate retirement replacement ratio for the individual, as well as what a person has to save to support that lifestyle.

## Creating a retirement budget

The starting point for retirement budgeting is to look at current spending. Last year's tax return shows what an individual earned and paid in taxes. The person either spent or saved the difference between the two. The next step is to look at the various categories of spending and saving and think about which expenses will disappear, decrease, stay the same or rise. Following the money trail can be an eye-opening experience and may highlight where someone could cut spending in order to save more.

Retirement budget worksheets generally contain spots to record various categories of current expenses, as well as estimates for the same costs in retirement. Comparing the two columns — pre- and post-retirement expenses — indicates an approximate retirement ratio.

Budgeting for retirement when employees are quite young requires some assumptions, such as owning and having paid off a house by the time they retire. Other expenses employees may have while they're working, but not in retirement, include Canada Pension Plan and employment insurance premiums, savings plan contributions, commuting expenses, uniform or dry cleaning costs and the price of a daily restaurant lunch.

Depending on what a person's retirement plans include, there may well

be additional expenses in the budget once the daily work schedule no longer applies. There will be more time for travel, hobbies and cultural activities. Retirees may now have to pay for other expenses, such as the cost of insurance and certain health-care coverage, that an employer's plan had previously covered. They'll also have to account for those aspects in the budget.

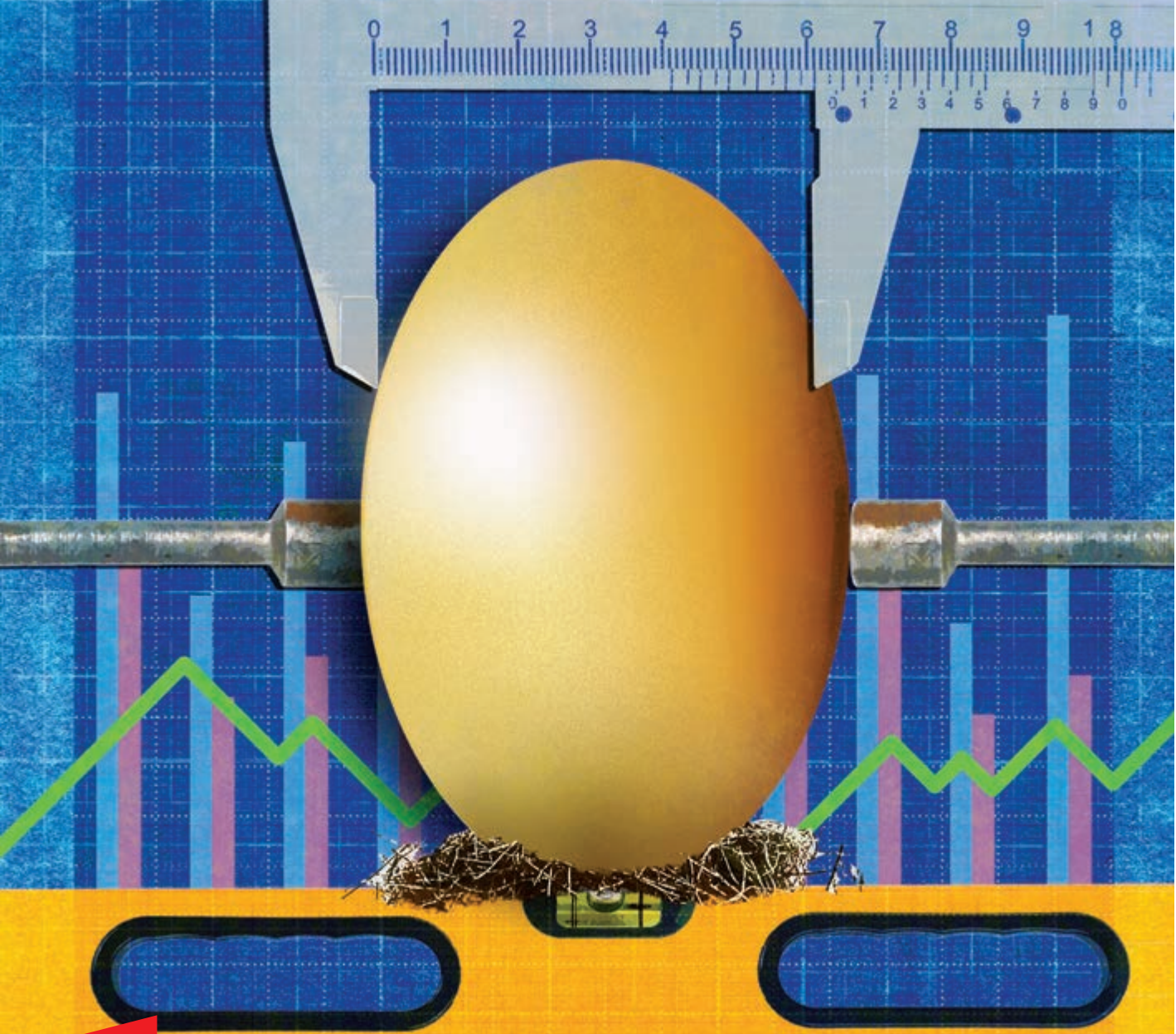
There will also be ongoing expenses not affected by work status, such as property taxes, home maintenance, gifts and car and home insurance.

The closer a person is to retirement, the easier it will be to estimate expenses and create a more accurate budget. That doesn't mean an employee should wait until age 50 to conduct the exercise, especially since the earlier people start saving for retirement, the greater the likelihood of achieving their savings goals. It does mean they should revisit a retirement planning budget often and update it as circumstances change, both before and after retirement. Conditions are no more static after retirement than they are beforehand, and it's important to revise budgets as people progress from the honeymoon phase of early retirement through to the point where they may need to sell the family home and move to an assisted-living facility.

## The employer's role in retirement planning

With a budget figured out — even one that will likely change over time — the next step is to determine sources to fund that future lifestyle. Information about income from employer-sponsored plans and the government may be readily available on an organization's employee portal, complete with a retirement calculator and other tools, but employees may not know where to find it.

If employers find employees aren't accessing those resources often, they may want to consider revamping the way they share information. When



## CANADIANS' BUDGETARY CHALLENGES IN 2018

**67%**

Admit they need to get a better handle on their finances in the new year

**16%**

Actually achieved their top financial goal in 2017 and moved on to another one

**26%**

Say they took on new debt during the past year

**51%**

Regret not paying down more debt while interest rates were so low

**7%**

Cite saving for retirement as their top focus for this year, compared to **25%** who emphasized paying down debt



Source: Canadian Imperial Bank of Commerce, December 2017 financial priorities poll

material is available in a user-friendly format, people are more likely to read it. Employers can consider sharing information in life stages (referring, for example, to events such as having a baby and saving for retirement), rather than, or in addition to, putting it under headings like “pension plan.” Once employees realize how much of their retirement budget already comes from their employer plan, they may appreciate the benefit more.

Employees will also gain a better understanding of how much they’ll need to save themselves in order to afford the retirement they’re envisioning. The organization may then want to take an active role in helping employees achieve their savings goals by offering assistance through retirement planning workshops and other vehicles.

Following the three-step process of establishing a retirement budget, identifying sources of income and determining

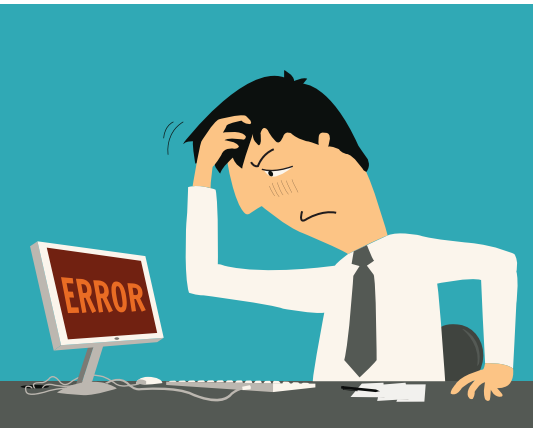
and achieving savings goals — perhaps with the employer’s assistance — can help employees transition to retirement earlier and more easily, secure in the knowledge that they have sufficient savings to help them enjoy life after work. [BC](#)

**Nichola Peterson is a partner at Morneau Shepell Ltd. and leads its retirement planning seminars practice.**

# CAN YOU BELIEVE IT?

Compiled by *Ryan Murphy*

**A look at some of the strange workplace happenings from around the world**



## Man's pension benefits affected after government wrongly declares him dead – twice

**T**hey say cats have nine lives, but it appears one man in Kamloops, B.C., has at least three.

According to The Canadian Press, Bryan Kupiak's troubles began after he received an old-age security statement addressed to his estate in October 2017.

Kupiak told The Canadian Press that, after his mother died the previous month, her death certificate mistakenly listed his social insurance number. The error affected his benefits, including his pension.

While Kupiak's member of Parliament, Cathy McLeod, helped him fix the error, the troubles continued after his wife received information from the government listing her as a widow, The Canadian Press reported.

"I figure, OK, we're good, and then now my wife's a widow. That means I'm still dead," Kupiak told The Canadian Press.

According to the CBC, however, the Canada Revenue Agency has since fixed the second error, which resulted from his wife's status changing after the original mix-up.

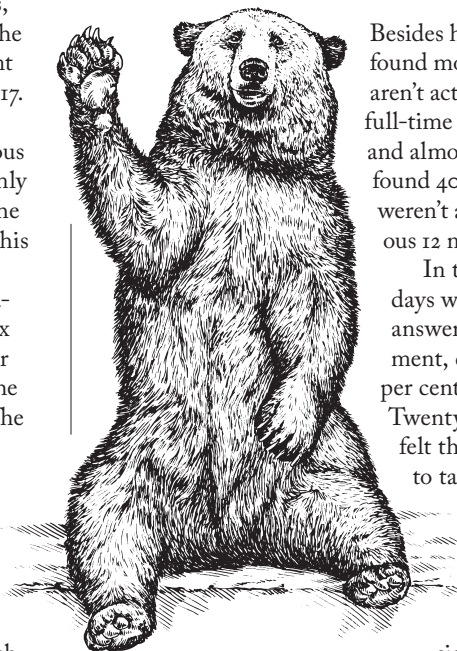
Kupiak told the national broadcaster he was happy to be alive again. "We're back to being human again," the CBC quoted Kupiak as saying.

## Solar eclipse fears and other novel excuses for not working

**A**re worries about a coming solar eclipse a good reason to not show up for work? One U.S. employee seemed to think so, a recent survey found.

The survey, by human resources company CareerBuilder, tracked some of the unique excuses offered up by employees for why they wouldn't be at work. They included:


- An employee had eaten a toothpick at a restaurant;
- An employee called in "fat" because a uniform didn't fit;
- A worker's phone exploded and injured their hand;
- A worker felt it would be safer to stay home because they were unsure of the effects of the pending solar eclipse;
- An employee didn't have enough gas in their car to get to work;
- A worker left their clothes at the laundromat; and
- A worker was afraid to leave the house because of a bear in the yard.



Besides highlighting the more interesting excuses, the survey found more U.S. workers have been calling in sick when they aren't actually ill. The survey, which polled more than 2,200 full-time hiring managers and human resources professionals and almost 4,000 full-time employees in the United States, found 40 per cent of workers had called in sick when they weren't actually feeling under the weather during the previous 12 months. That was up from 35 per cent in 2016.

In terms of what employees actually did on those days when they called in sick, the survey found a mix of answers. The top reason was attending a doctor's appointment, cited by 30 per cent of respondents, followed by 23 per cent who said they just didn't feel like going to work. Twenty per cent cited a need for relaxation and 15 per cent felt the need to get more sleep. Another 14 per cent had to take care of errands, eight per cent wanted to clean the house and the same number had plans with family and friends.

More than a third (38 per cent) of employers have checked up on employees who called in sick to make sure they were

actually ill. When checking up on employees, nearly half (43 per cent) of human resources professionals caught them in a sick day fib via social media. Other methods of checking up included having a co-worker call sick employees to inquire about their illness (25 per cent), driving past the worker's home (22 per cent), and requiring a doctor's note (64 per cent). 





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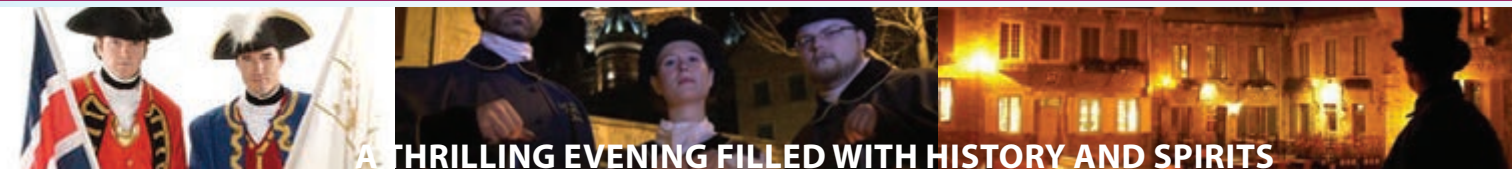


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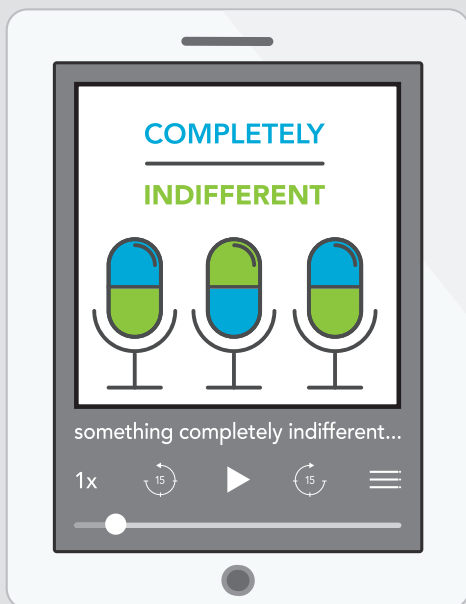


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