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Annual Report & Directory: Group Benefits And Retirement Recent Industry Trends And Their Impact On Plan Sponsors

By: Jan Grude

The end of mandatory **retirement**, accounting for **pensions** and **post-retirement benefits**, and drug costs are just some of the issues that **plan sponsors** in Canada face these days. And, they are turning to their **group benefits** providers in their search for answers and solutions.

To assist sponsors in their search, **Benefits and Pensions Monitor** presents its 2007 Annual Report & Directory: **Group Benefits** and **Group Retirement**. It begins with Jan Grude, of Buck Consultants, an ACS company, looking at these and other key issues and trends facing the industry this year.

Then, on Page 23, readers can find the Directory of **Group Benefits** and **Group Retirement**. Again, this year, we've divided the directory in two with a section for those who provide **healthcare** and other non-pension **benefits** and a second section for those who offer **Group Retirement** services. As well, we expanded the parameters this year inviting providers of all-inclusive Capital Accumulation Plan services to list in the directory along with the major insurers who provide these services.

Many emerging trends in the pensions and benefits industry are having a profound impact on plan sponsors today. Some of these trends are caused by legislative changes, others by changing demographics, and some are being driven by economic conditions.

For example, plan sponsors are coping with the increasing costs of pension plans and group benefit programs by moving from DB to DC plans or considering flexible benefit plan options. And the shift in demographics and the aging workforce, coupled with an end to mandatory retirement, means that plan sponsors need to examine the short and longterm effects of these changes on their plans, and how best to address them.

What are the most pressing issues facing plan sponsors today and what are they doing to meet these challenges? Read on, as we explore some recent trends in the pension and benefits arena and their impact on plan sponsors and their group benefits providers, both now and in the future.

◆ Quebec Bill 30

The intent of Bill 30, which became law in December 2006, is to revise funding requirements, introduce new responsibilities for the pension committee, and better define the responsibilities of those involved in the administration of pension plans.

Bill 30 enshrines in legislation what has previously been found in documents such as the CAPSA Pension Plan Governance Guidelines. It will be interesting to see if other provinces follow suit. CAPSA guidelines represent 'best practice' standards, and conscientious administrators will follow them – even if they're not legally required to do so. By making them law, Quebec is moving governance to a whole new level.

◆ Accounting For Pensions And Postretirement Benefits

Accounting changes in the U.S. will affect companies that must report pension and/or post-retirement benefit expense using the standards of the U.S. Financial Accounting Standards Board (FASB). Starting with fiscal years ending on or after December 15, 2006, companies will need to move results up into the corporate financial statement, rather than containing that information in footnotes. This change is expected to bring greater attention from investors as it will be easier to spot year-over-year changes and volatility. In addition, for fiscal years ending on or after December 15, 2008, the new standards will require plan assets and obligations to be measured as of the financial statement date, rather than up to three months earlier as is currently permitted.

These balance sheet changes cover Phase 1 of the changes to the U.S. accounting standards for post-retirement benefits. Phase 2 will involve a review of how pension plans are to be reported in the company's income statement, and significant changes are expected as a result of this review.

Changes are also occurring in Canada and on the international front. The Canadian accounting standards board recently announced changes similar to FASB's Phase 1 changes. The International Accounting Standards Board is contemplating how it will proceed to bring its standards in line with those of FASB, and expects to release a discussion paper in 2007.

This activity makes a lot of sense if it means that companies will be able to readily compare notes globally, knowing that they are using the same basis for comparison. However, it may come with a 'price-tag' of increased volatility in results, due to a likely trend by the standards boards to move to the use of market-based asset values.

◆ Post-retirement Benefits

The new accounting requirements are causing many plan sponsors to reevaluate their post-retirement benefit commitments. Some have either eliminated benefits altogether, or frozen their current contributions. It's estimated that less than 30 per cent of plan sponsors now provide post-retirement benefits.

While several group insurers offer limited individual health and dental benefits to former group plan members who lose their coverage at retirement, perhaps we need one of the major insurers to develop a product similar to that announced by Aetna in the United States. The HR Policy Association, a consortium of 250 employers with more than 12 million U.S. employees, has entered into a letter of intent with Aetna to offer a retiree benefit program. This includes employers who do not currently offer retiree benefits. The plan would be fully insured and available to all employees at retirement, regardless of their health status.

Considering that Canada's three largest insurers reported a combined profit of $8 billion in 2006, surely at least one of them can afford to step up to the plate and offer such a much-needed product.

◆ Ontario Bill 102

The original Ontario Bill 102 proposals included:

- Allowing the negotiation of preferred pricing for all drugs
- Limiting the mark-up charged by pharmacists
- Eliminating 'volume discounts' passed on to pharmacists by manufacturers
- Enhancing generic substitution regulations All of these would be beneficial to Ontarians purchasing drugs, and to employers who sponsor drug plans for their employees.

Unfortunately (except for Ontarians over age 65), the final bill passed in June 2006 applies these proposals only to Ontario Drug Benefit (ODB) drug plan costs. This selectivity means that Ontarians, including employers who sponsor benefit plans, could now face even higher drug costs since pharmacists will want to pass on lost revenue from seniors to their drug dispensing charges for everyone else.

Not only did Bill 102 not bring the hoped-for relief in drug costs to plan sponsors, a recent recommendation by Cancer Care Ontario that Ontario hospitals administer expensive, privately-purchased IV drugs is also affecting plan sponsor costs. Drug costs are increasing and the cost of adjudicating claims has also been affected, due to manual procedures to obtain plan sponsor approval and increased auditing services to ensure that claims are not overpaid. This is positive news for patients, who will see increased accessibility to the drugs, but it also means higher costs for employers that agree to pick up the costs.

◆ Wellness And eHealth

Employers recognize that it's time to stop trying to just manage costs through plan design and cost-sharing changes. Instead, they're seeking ways to improve disease management outcomes and help employees better manage their own health.

Absenteeism affects every employer's bottom line and many are turning to health risk assessments and Internet resources to help their employees change their lifestyles. We predict that the next trend will be for providers to offer these services through their websites for a nominal fee, with potential long-term savings in benefit costs.

◆ Outsourcing

Another recent trend is towards benefits and human resources outsourcing, as employers aim to focus more on their core businesses. With the recent trend of employers closing their Defined Benefit plans to new members, the UK is seeing the emergence of a new financial service where a third-party not only administers the DB plan, but actually assumes financial responsibility for it by purchasing the assets, thus eliminating the liability from the employer 's bottom line. While the idea of removing pension plan liability from the balance sheet may be an attractive option for a plan sponsor, it doesn't come cheap. Completing such a transaction means funding any existing deficit immediately, and these buy-out firms typically place a higher price on the liabilities than what may be reported on the company's balance sheet.

◆ **One-stop Shopping**

With the trend towards Capital Accumulation plans, many plan sponsors are now looking for the convenience of 'onestop shopping' for their employees for both retirement and health and welfare benefits. Several of Canada's larger insurers have taken up the challenge and are developing employee self-service websites with a single point of access to obtain information on their DC investments or their benefit plans.

One-stop shopping also leads to a new trend in marketing and benefit consulting as plan sponsors seek one vendor for both needs, requiring consulting firms to combine services that were traditionally offered separately. In our experience, combining similar processes for group benefits and DC plans significantly reduces the resources required by the plan sponsor and the consulting firm, resulting in a more efficient implementation and better ongoing service.

The pension and benefits industry continues to face new challenges stimulated by legislative, demographic, and economic pressures. The good news is that advisors and insurers are ready, willing, and able to help create innovative solutions for plan sponsors' issues as they evolve. And in Ontario at least, one regulator is poised to listen to industry concerns. Last November, Ontario established the Expert Commission on Pensions whose mandate is, in the words of Greg Sorbara, "to seek input about ways to ensure that Ontarians can rely on their pensions, and keep the province's pension system sustainable."

Mr. Sorbara – be prepared for an earful. ■

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