



SOCIETY OF ACTUARIES

**Health Spring Meeting
June 2009**

**Session # 25 PD: Post-retirement Benefits -
Current Issues in Canada**

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Post-retirement Benefits – Current issues in Canada

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June 8, 2009

Agenda

- Context
 - Canadian Institute of Actuaries –
Standards of Practice
 - Typical assumptions
 - Special considerations
 - Financial reporting
 - Tools
 - Other issues
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Context

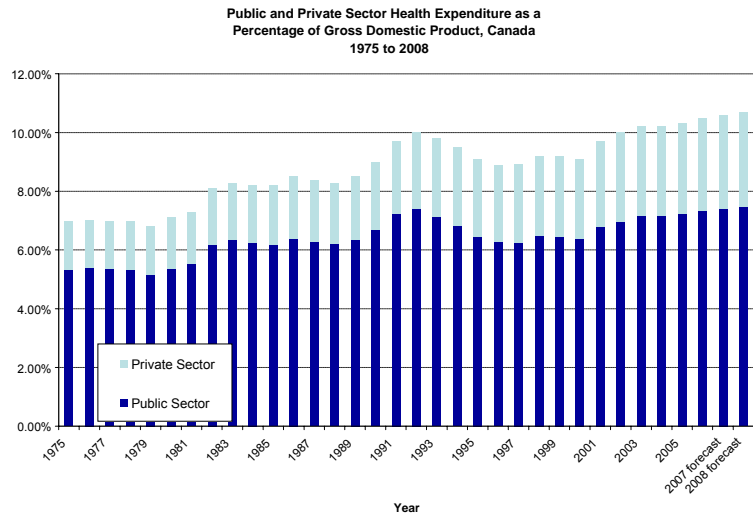
- Myth no. 1: In Canada, all health care is provided through government financed plans

Context

2006 Health Expenditures in Canada	Public Sector	Private Sector
Physician services	98%	2%
Curative and rehabilitative inpatient care	91%	9%
Pharmaceuticals and other medical non-durable goods	38%	62%
Long-term nursing care	75%	25%
Dental services	5%	95%
Total	70%	30%

Source: Canadian Institute for Health Information

Context



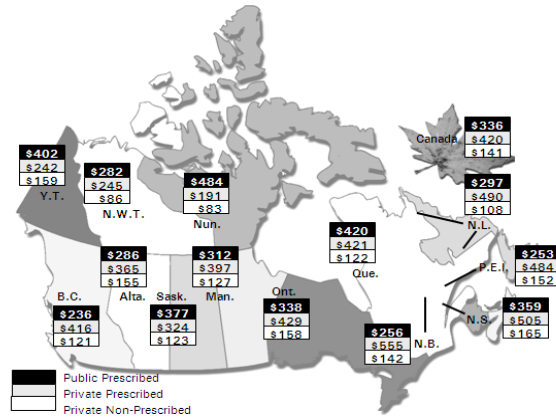
Source: Canadian Institute for Health Information

Context

- Myth no. 2: There is a unique health care public program offered to Canadians

Context

Total Drug Expenditure per Capita by Type and by Source of Finance, by Province/Territory and Canada, 2008f

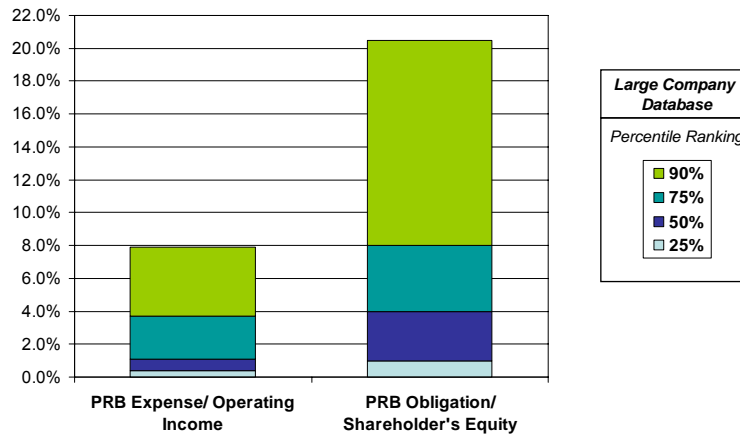


Sources: National Health Expenditure Database, 2008, Canadian Institute for Health Information; Population, Statistics Canada.

Context

- Myth no. 3: Post-retirement benefits do not represent a significant financial burden for Canadian plan sponsors

PRB Expense/Obligation and Key Corporate Financial Metrics



Source: Information extracted from the year end 2006 financial statements of 67 large public companies

PRB Obligation – An example

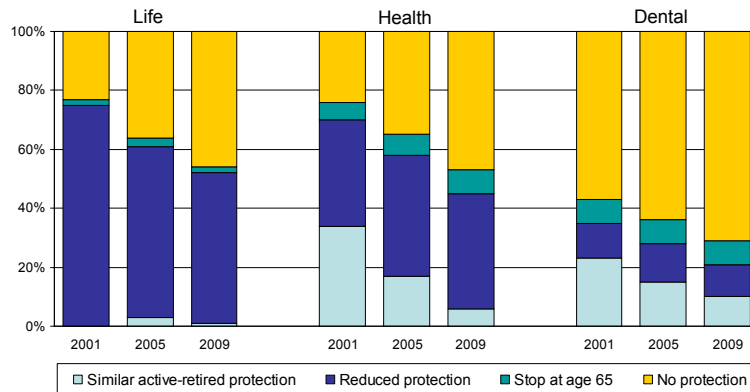
Age of employee/retiree	42	52	62	72
Life Insurance only	\$200	\$900	\$2,000	\$3,000
Life Insurance and Health Care to age 65	\$6,000	\$15,000	\$11,000	\$3,000
Life Insurance and Health Care for life	\$15,000	\$38,000	\$40,000	\$23,000

Assumptions:

- 1) Life insurance coverage of \$5,000
- 2) Comprehensive health care coverage integrated with Ontario Drug Benefit (annual 2009 cost per retiree of \$3,000 before age 65 and \$1,500 after age 65)
- 3) Discount rate of 6% and health care trend rate of 9% in 2009 decreasing to 5% over 8 years
- 4) Simplified demographic assumptions used, retirement at age 60 is assumed
- 5) Hired at age 32

Post-Retirement Benefits in Canada

Prevalence Among Large Canadian Employers



Source: Towers Perrin Benefits Data Bank.
Results relate to new hires into salaried non-bargaining group.

Post-Retirement Benefits in Canada

- Life Insurance
 - Flat amount or % of pre-retirement coverage
- Health care
 - Pre-65:
 - Drugs represent 60% to 80% of costs
 - Vision care, paramedical services and medical equipment
 - Out-of-country coverage (with limits)
 - Post-65:
 - Some drug coverage under provincial drug plans
 - Private plans may cover deductible and coinsurance and drugs not covered under provincial plans
 - Significant variations in coverage from one province to the other

Canadian Institute of Actuaries Standards of Practice

- SECTION 6000 – Post-Employment Benefit Plans
 - Effective June 1, 2005
 - Data and Plan Provisions
 - Methods and Assumptions
 - Funding and Accounting Valuations
 - Reporting
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Standards of Practice – Accounting Valuations

- Actuary must report
 - i. Preparers selected assumptions and actuary expresses no opinion on them,
 - ii. Preparers selected assumptions and they are, or are not, in accordance with accepted actuarial practice, or
 - iii. Actuary selected assumptions and they are in accordance with accepted actuarial practice
 - Should not extrapolate beyond three years.
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Discount Rates

- Market rates on high quality debt instruments with cash flows that match timing and amount of expected benefit payments; or
- Settlement interest rates

Sample Discount Rates – rates vary

31/12/05	4.75% to 5%*
31/12/06	5% to 5.25%*
31/12/07	5.5%*
31/12/08	8% to 9%**
31/03/09	7.75% to 8.75%***

* Morneau Sobeco recommended rates for durations 10 to 18 years, recommended rates were similar until 31/12/08 where they varied significantly

** adjusted recommendation to 7.25% to 7.5%

*** very steep yield curve; many plans using lower rates due to shorter durations

Sample Trend Rates

- Dental: Flat 4% to 5% per year
 - Health Care:
 - Initial Rate: 8% to 10%
 - Ultimate Rate: 4% to 6%
 - Annual Decrease: 0.5% to 1%
 - Largest increases come from prescription drug costs, which typically account for more than 50% of total health care costs before age 65
 - Can set separate rates for other components, e.g. Hospital, Paramedical, Vision, Nursing Home, etc.
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Initial Claims Costs

- Order of preference
 1. Historical Retiree claims
 2. Historical Active/Retiree claims
 3. Retiree Premium Rates
 4. Active/Retiree premium rates
 5. Industry averages
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Special Considerations

- Aging model
 - No common platform
- Lack of credible data
 - Improving over time
- No data from insurers

Special Considerations

- Under Medicare in most Provinces, prescription drug coverage begins at age 65
- May not cover all drugs, plus there may be deductibles and user fees
- Usually large decrease in average health care cost from age 64 to age 65
- Provinces offloading cost of certain procedures to individuals or group benefits coverage

Financial Reporting

- Other than Governments → CICA 3461
- Beginning in 2011 → IAS 19 (IFRS)
- Calculations needed earlier
- Governments → PSAB 3250 AND 3255

Tools

- Limited funding of post-retirement benefits
 - No tax-effective solution currently available
 - No VEBA type vehicle is available
 - Some proposals are currently on the table
- Individual insurance products are emerging
 - Carriers have developed conversion products
 - These products are starting to get attention

Other issues

- **Post-employment benefits**
 - Sick leaves/salary continuance programs
 - Self-insured disability plans
 - Benefits continuation for disabled employees
 - Retirement allowances
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Questions?
