

# mebco NEWS

THE VOICE OF MULTI-EMPLOYER PLAN INTERESTS IN CANADA

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## MEBCO's role more important than ever

Multi-employer plans play a vital role in providing health services and retirement plans to workers and their families in industries typified by small companies and a mobile work force. Without the legislative framework allowing for the cost and tax-effective delivery of these plans, most workers would have no way of accessing similar plans and benefits on an individual basis.

So why MEBCO? The answer is simple—the legislative framework is constantly changing, and cost-management and cost reduction are at the top of every agenda. This means the potential for offloading costs onto plans, rules that restrict plan coverage, and a threat to the viability of plans in some cases.

MEBCO is the single, clear voice at the table representing the unique interests of multi-employer plans.

### Taking an active role

While multi-employer pension and benefit plans cover over 1,000,000 Canadians, they carry a low profile due to the fact that the coverage is thinly spread over many employer groups and mobile workers. MEBCO is the single, clear voice at the table representing the unique interests of multi-employer plans.

MEBCO carries out this mandate in a number of ways:

- By advocating its position on behalf of multi-employer plans before administrative tribunals, provincial and federal governments, and their agencies.
- By intervening and participating in proceedings before courts or other judicial bodies
- By preparing and presenting reports, studies, and submissions on matters of importance to our members.

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### Track record of success

While MEBCO can't guarantee that legislative change will never have an adverse impact on multi-employer plans, our role does guarantee that multi-employer plan interests will be considered whenever change is on the horizon.

And that consideration has an impact. (See article on the Alberta Insurance Act below). So long as we have your support, MEBCO will continue to be a strong voice representing multi-employer plan interests. ∞

## Alberta Finance excludes multi-employer benefit plans from Insurance Act

Early this year, MEBCO made submissions to Alberta Finance in response to that Ministry's discussion paper on the issue of how the Alberta Insurance Act applies to health and disability programs.

Alberta Finance's interpretation of the Insurance Act was that health and disability programs could only be offered through an insured arrangement. If continued, this position would have required every multi-employer benefit plan ("MEBP") in the province to find an insurer willing to underwrite its benefits, or become an insurer, with substantial minimum capital requirements.

### MEBCO argues against mandatory insured arrangements

In setting out its position that such an interpretation of the Insurance Act would be detrimental to MEBPs and its covered members, MEBCO made a number of key points in its submissions:

- **The multi-employer structure is more stable than a single employer model.** A set of rules designed to minimize the risk of default for single employers does not necessarily

benefit or protect the members of MEBPs. For example, the insolvency of a single employer under a MEBP has a minimal impact on the plan as a whole. The need for the protection of insured benefits is minimal under a MEBP.

- **Insurance could be cost prohibitive.** In Canada, there is a very limited market for long-term disability insurance, in particular for MEBPs. If MEBP Trustees are forced to seek insurance to provide benefits, the benefits may become cost prohibitive and many members will have no access to such benefits.
- **Trustees have a fiduciary duty to plan members.** The existence of a Board of Trustees and the fiduciary responsibility demanded of Trustees of MEBPs provides acceptable protection for benefit administration and funding—and every board has at least 50% or more representation by employees.

### Government adopts position consistent with MEBCO submissions

The Government of Alberta recently announced that it will be excluding MEBPs from the Insurance Act requirements to insure benefits. The two conditions relating to this exclusion are that disability benefits not provide a death benefit, and that Trustees make it clear to plan members that their benefits are provided from a trust fund, with no insurance arrangement in place. The government's decision brings Alberta's approach in line with that of other Canadian jurisdictions. ∞

## What is MEBCO?

MEBCO was established in 1992 as a federal no-share capital corporation, operating on a not-for-profit basis. MEBCO represents the interests of Canadian multi-employer pension and benefits plans with provincial and federal governments regarding proposed or existing legislation and policies affecting these plans.

Our Board of Directors serve MEBCO on a volunteer basis, and are responsible for identifying issues that impact multi-employer plans, developing a strategy to address those issues, and then carrying out this strategy. They are elected representatives from all persons and disciplines involved in multi-employer plans, including union and employer trustees, professional third party administrators, non profit or "in-house"

plan administrators, actuaries, benefit consultants, lawyers, and chartered accountants.

We welcome your comments and feedback. You can reach us at [mail@mebco.org](mailto:mail@mebco.org) or by mail at our address below.

### MEBCO

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# Health care—What the Romanow and Kirby reports mean for health plans

It's been nearly a year since the release of two separate reports on health care—by Roy Romanow and Senator Michael Kirby. MEBCO's submissions to the Romanow Commission can be found on the MEBCO website at <http://www.mebco.org/docs/Romanow.PDF>.

In this interview, MEBCO committee member Andrew Hatnay, a lawyer with Koskie Minsky in Toronto specializing in pension plans and employee benefit plans, discusses the possible impact of the Romanow and Kirby reports on multi-employer benefit plans and discusses how the government responded to the reports.

**Q: Are the Romanow and Kirby reports good news or bad news for multi-employer benefit plans (“MEBPs”)?**

**A:** The reports are good news because they directly address the cuts that have been taking place in our health care system. In the past, governments have often quietly withdrawn coverage for certain medical services, and people have only become aware of the cuts when they are charged for procedures that used to be covered by their provincial health insurance. Employer plans have had to bear the burden of these government cutbacks by providing coverage for such health care costs. The reports have put these issues on the table where they can be publicly debated.

**Q: What are the key features of the Romanow and Kirby reports for multi-employer benefit plans?**

**A:** Because MEBPs provide coverage to their members for health costs that are not covered by the government, MEBCO is concerned about any potential offloading of health care costs currently paid by the government.

If MEBPs are to assume those costs, the cost to the employers of operating the benefit plans increases, and may become prohibitive. Fortunately, neither the Romanow nor the Kirby reports recommended any further offloading of government responsibility for health care costs.

**Q: Did the Romanow or Kirby reports address the issue of prescription drug coverage?**

**A:** MEBCO's submissions to the Romanow Commission addressed the problems faced by MEBPs as a result of the increasing costs of prescription drugs and the delisting of prescription drugs by government plans.

The Romanow report recommended that steps be taken to integrate prescription drugs into Canada's health care coverage, including providing additional funds to the provinces and territories to protect Canadians against the potentially catastrophic impact of high drug costs, and to reduce disparities in drug costs between different regions.

The Kirby report also recommended a catastrophic prescription drug plan which would cap out-of-pocket costs for drugs at 3% of family income. Most important for MEBPs, the Kirby report recommended that sponsors of existing private supplementary drug insurance plans would have to agree to cap each individual plan member's out of pocket costs at the lesser of 3% of family income and \$1,500.

**Q: Have the recommendations contained in the two reports been implemented?**

**A:** In February, 2003, the provincial premiers met with the Prime Minister and entered into an Accord on Health Care Renewal, which the Prime Minister said reflected the ideas Canadians expressed in the Romanow and Kirby reports, although not necessarily the recommendations contained in those reports. For example, the Accord's agreement on catastrophic drug coverage simply requires the provinces to ensure that all Canadians have reasonable access to catastrophic drug coverage by the end of 2005/06. ∞



Andrew Hatnay  
Koskie Minsky

## The lobbying continues on the GST front

It took two years of lobbying, but MEBCO has achieved success in obtaining GST rebates for multi-employer pension plans (“MEPPs”). The rebate is equal to 33% of the GST incurred on administrative expenses relating to the plans, which was previously unrecoverable. The rebate eliminates the inequity in the treatment of MEPPs and single employer pension

plans, which are allowed to claim an input tax credit and/or a GST rebate on their expenses.

Based on this success, MEBCO is lobbying to achieve the same rebates for other multi-employer benefit plans. Single employer benefit plans (“SEBPs”) recover GST costs on their expenses, even though

the CCRA does not officially permit them to do so. In order to establish that an inequity exists, MEBCO is in the ironic position of having to convince the federal government that SEBPs are entitled to recover GST costs.

Further meetings with the Ministry of Finance and the CCRA are planned.

# Commuted value changes coming

By J. M. ("Mel") Norton, FCLIA, FSA  
Senior Vice President, AON Consulting Inc.

The Canadian Institute of Actuaries is in the process of developing an updated *Standard of Practice for Determining Pension Commuted Values*. This updated standard could have a significant impact on the funding status of multi-employer pension plans.

## How commuted values are calculated

Commuted values are the present day lump sum value of the pension promise, and are developed from actuarial assumptions, the two key assumptions being life expectancy and interest rates.

Any change in actuarial assumptions will have an impact on commuted value amounts. Since commuted values determine the cash amount a pension plan must transfer to a Locked-In Retirement Account when a plan member terminates, the assumptions used to calculate these values are critical. Commuted values are also instrumental in determining a plan's solvency liabilities (which can determine the funding requirements for the plan).

## Proposed changes to actuarial assumptions

It is widely known that people are now living longer than ever before. As such, there is a general consensus that the mortality assumptions used for the past 15 years are out-of-date, and a more current mortality table should apply (the UP-1994 table, including projected improvements to 2015). In the absence of any other changes, the use of this new mortality table will

increase commuted values for males by approximately 6% - 7%, with a slightly lower increase for females.

Interest rate assumptions will likely also change. Currently, interest rates are two-tiered, with an initial rate for 15-years based on long-term Government of Canada Bonds (subject to certain adjustments), and then a fixed rate of 6% applying.

Proposals being considered include changing the length of the initial 15-year period (both shorter and longer proposals are being considered), changing the 'adjustments', and making the ultimate rate a variable one.

Any increase in commuted values could result in a further deterioration in the solvency ratio for pension plans...

In today's interest rate environment, many of the proposals would significantly increase commuted values for most multi-employer pension plans outside the public sector—and virtually all proposals would increase the complexity and volatility of commuted value calculations.

Of additional concern to many multi-employer pension plans is the fact that solvency liabilities have always used identical actuarial assumptions as commuted values. Any increase in commuted values could result in a further deterioration in the solvency ratio for pension plans, thus making the current "solvency crisis" even worse.

## Look for new standards in 2004

Before a new standard is put in place, the Institute must first get consensus amongst the profession, a target proving quite difficult, as actuaries' opinions differ widely on what changes should occur—even though there is clear consensus that some changes should occur. We expect that an updated standard will probably be in place no later than the end of next year. ∞

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