Client Newsletter

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Gallagher

Insurance | Risk Management | Consulting

Talent Strategies Highlight Pathways to Profitability and Growth

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Competition for talent continues to be a strong factor affecting the financial and growth prospects for many organizations in Canada. A record 58 percent of Canadian employers planned to increase hiring in 2017[i], and that demand for talent is likely to be sustained in 2018 based on a 2.1 percent economic growth forecast[ii].

If employers want to stand out in today's talent marketplace where employees have more hiring options, they need to strategize how to position themselves as one of their best possible choices. The importance of defining a path to an integrated, holistic and proactive approach to benefits and compensation is a key theme of the first Canada Benefits Strategy & Benchmarking Survey from Gallagher. Findings show that cost control, absence management and benefits flexibility are top priorities for employers and employees. In addition to absence management, the survey provides data and insights on employee engagement, communication, medical and prescription drug benefits, life insurance, and dental and retirement benefits.

As Canadian employers implement business strategies in 2018, their overall relationship with their employees, and in particular, how effectively they engage their workforce is critical to achieving sustainable success. Nearly two-thirds of survey participants have a strategy to improve employee engagement. This shows their commitment to cultivating not only a workplace that attracts people who are a good fit, but also a work experience that productively engages and retains them.

Innovative Strategies and Tactics Help Employers Manage Prescription and Paramedical Costs

Employers are searching for ways to counter the increasing costs of prescription drugs and specialty medicines without shifting the burden to employees. Sixty-one percent have implemented mandatory generic policies while 38 percent are considering a dispensing fee maximum. To help manage paramedical costs, 11 percent use a combined annual maximum for all specialists and 30 percent set a per-visit maximum.

Some employers (22 percent) are pairing traditional benefits with a healthcare spending account. This tactic may help keep benefits affordable and allows employee customization. Employers that offer flexible benefits (11 percent) give their employees the opportunity to choose health and dental coverage levels.

Welcome to our client newsletter.

We trust you will find the enclosed information to be timely and useful to your business planning. If you have any questions regarding this content, please contact your local Gallagher representative.

Inside This Issue

1 Talent Strategies Highlight Pathways to Profitability and Growth

2 How have employee benefits changed?

3 Pharmacogenetics - You want to test my what?

4 Compliance Corner

4 Ontario Employers: Hidden Costs of Bill 148 Legislation

6 Mergers & Acquisitions: Considerations for Your Benefits & Retirement Programs

Leave Policies Play a Role in Employee Attraction and Retention

Absence management is a top employee-benefits related challenge (36 percent). Formalizing policies for leaves, disability benefits and paid time off (PTO), and communicating clearly on what is available to employees helps ensure fairness and mitigates compliance risk. For most employers PTO consists of 10 to 12 holidays and 2 to 3 weeks of paid vacation at hire. Fifty-six percent offer a short-term disability program and 70 percent of these employers pay the premium costs. Among the 94 percent that provide long-term disability, the employee pays the premium at two-thirds.

Effective Communication is a Top Challenge but Few Employers Take a Comprehensive Approach

Although employers tend to agree that employee communication is important, just 10 percent have invested in a broad-based, integrated strategy. Most employers use a communication strategy for some but not all of their programs (64 percent). Key communication goals focus on educating employees, improving their benefits use and cultivating appreciation for compensation and benefits value. Yet, most employees infrequently receive education about their benefits plan — less than once every two years (60 percent) or once a year (22 percent).

ABOUT THE BENEFITS STRATEGY & BENCHMARKING SURVEY

Gallagher developed the Benefits Strategy & Benchmarking Survey to provide employers with insights into how their peers are addressing benefit and human capital challenges. The 2017 survey, conducted from April to August of this year, aggregates responses from 374 organizations across Canada. Additional survey results can be found at www.ajg.com/cnbs2017.

The 2018 Survey will be available for completion at the beginning of April. You will receive a complimentary copy of the comprehensive National Report (a $750 value). Please watch for more information from your Gallagher representative to learn more about participating. Contact me for additional information: Leslie_Lemenager@ajg.com

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[i] https://www.bankofcanada.ca/2017/06/bos-summer-2017/

[ii] http://www.oecd.org/eco/outlook/economic-outlook/

How have employee benefits changed?

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Every year it seems like technology is taking us in new directions and changing how we communicate and do business.

We've experienced the novelty of car phones, cell phones and now, smartphones as well as Google Home, Siri commands, and superfoods delivered to your door. Technological advancements seem to afford us endless possibilities and the potential for a future that is beyond limits. This notion got me thinking about how technology changed the way products and services are delivered and how it affects group benefits as a whole.

Last year, the Society of Human Resource Management (SHRM) reported on benefit industry changes over the course of the last 20 years. Their survey captured a comparative analysis of benefit plan offerings in 1996 and then again in 2016. This report captured marked differences including "what's in" and "what's out." While these examples reflect the sentiments of US respondents, they are not out of line with the trends reported by Canadian employers.

What's in?

Telecommuting. In 1996 only 20% of companies offered employees the ability to work remotely. Technology and views of employers shifted significantly in 20 years. In 2016, 60% of companies provide flexibility in terms of promoting work-life balance.

Professional development. In 1996, the emphasis on recruiting and employee retention was not as much of a focus as it is today. In 2017, 86% of companies covered additional training and education for their employees. Costs for memberships to professional organizations and trade unions are up 88% as compared to 65% in 1996.

Focus on wellbeing. In 1996, 54% of employer offered health and wellness programs. Comparatively, in 2016, 72% of employers offered wellbeing programs including discounts on insurance premiums or Health Savings Accounts. Given the increased number of chronic disease conditions related to diabetes, obesity and heart disease seen in the workplace, this increased focus is well placed.

What's out?

Employee stock purchase plans. Back in 1996, 28% of companies offered employee stock purchase plans compared to 9% in 2016.

Credit union memberships. The buzz around credit union membership has seen its heyday. Today only 23% of companies offer credit union memberships compared to 70% in 1996.

In 2017, we see more examples of providers implementing service experiences using artificial intelligence. Members can find out if their massage claim was processed using Google Home. It begs the question, what is next?

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Pharmacogenetics - You want to test my what?

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Genetic testing is not just science fiction anymore, but rather a new service that may be on its way to becoming a regular part of many company's group benefit programs. Despite the Canadian Government passing Bill C-201 which prohibits life insurance companies from using predictive genetic tests to discriminate coverage for individuals, genetic testing is set to become a useful tool for increasing the effectiveness of drugs and help reduce overall plan costs.

The study of Pharmacogenetics is used to compare an individual's genes for compatibility with drug molecules. The results indicate if someone is either a low metabolizer (increased risk of overdose), normal metabolizer (indicates a good match) or a high metabolizer (may result in little or no effect). This allows doctors to adjust dosage levels or prescribe an alternate drug in order to ensure patients are receiving the intended effects of their treatment.

As human DNA has many thousands of genes, it would be massively time consuming to map all of them. As such, current tests only map genes that have been researched to be predictors of the metabolization of the tested molecules. As the number of tested molecules grows, patients are automatically updated with those results. However, as the number of tested genes grows, there may be a need for a patient to receive more than one genetic test as genetic samples are not kept longer than 30 days. Currently, test results are compared against approximately 35% of drugs on the market. New research means that in the near future tests will compare against approximately 90% of drugs on the market for at least the next few years. After which continued research will be required to prevent the proportion from dropping due to the high number of new drugs being introduced by pharma companies.

Due to the laws around genetic testing, even for plan sponsors who have provided pharmacogenetics as a benefit to employees, actually having the test done is completely voluntary and employees cannot be discriminated against if they elect not to have the test done. It is because of this that currently no insurance carriers are offering this as part of their extended health care services coverage.

However, given the high degree of confidentiality involved in the process (only the employee and their doctor will ever see the results) many disability management providers are offering this product as an option to help reduce disability claim duration.

Further to reducing claim duration, knowing which drugs are going to be most effective may also help prevent disability claims and reduce absenteeism, which offers companies further savings. Savings may also potentially trickle into drug plans as employees are not spending time and money taking drugs that are ineffective for them.

Pharmacogenetics is relatively new to the market and there is not a lot of information on the utilization of this benefit. However, Personalized Prescribing, a pharmacogenetics tester, estimates that approximately 17% of Canadians are currently taking a drug that makes them eligible for testing.

As this is a new and evolving topic, please stay tuned as we continue to update you on the latest news regarding Pharmacogenetics.

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Compliance Corner

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Saskatchewan Pension Plan Doubles Its Annual Contribution Limit

The Saskatchewan government recently allowed for the annual contribution limit to the Saskatchewan Pension Plan (SPP) to increase to $6,000, more than double of the prior contribution limit of $2,500. This contribution increase applies to the 2017 tax year and the government will allow for the contribution to increase annually as based upon the applicable year's maximum pensionable earnings.

Employers should ensure that employees have been notified about this increase and update their administrative processes in order to accommodate additional funds.

For more information on the increase and on the SPP, please the SPP's website at: https://www.saskpension.com/limit-increase-2018.php.

Default Employee Contribution Rate Increases for Quebec's Voluntary Retirement Savings Plans (VRSPs)

Effective January 1, 2018, the default employee contribution rate for Quebec's Voluntary Retirement Savings Plan (VRSPs) increased from 2% to 3% of the employee's normal salary for some employees. Specifically, only the following employees are affected by this contribution rate increase:

- Employees who are automatically enrolled into their employer's VRSP; and
- Employee members who failed to timely set up their own contribution rate.

This contribution rate amount is expected to increase to 4% effective January 1, 2019.

It is important to note that employers are not subject to this increase because employers are not required to participate in VRSPs. However, any individual who is employed by the employer and not eligible for the employer's other retirement plans are automatically enrolled within the employer's VRSP.

Therefore, employers should ensure that this increase is properly communicated to the affected employees and included in the applicable plan documents.

For more information about Quebec's VRSPs and this new contribution rate increase, please see the guidance from Retraite Quebec at: https://www.rrq.gouv.qc.ca/en/travail/rver/Pages/rver.aspx.

Mandatory Employee Contributions to British Columbia's Medical Services Plan (MSP) Cut in Half

All affected British Columbia employees are reaping the benefit of a reduction of their mandatory contributions to the British Columbia Medical Services Plan (MSP). Effective January 1, 2018, the employee mandatory contribution amount reduced by more than 50% from $75 per month to $35 per month.

Only those employees who earn an income above a certain threshold amount are required to participate in the MSP. Accompanying the reduction in employee contributions, the MSP income threshold amount also increased from $24,000 to $26,000, effective January 1, 2018.

Employers should ensure that employees are informed about these regulatory changes and update any documents provided to employees that discuss the MSP. Now may also be a good time for employers to commence financial wellbeing discussions with employees to encourage prudent usage for this additional income.

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Ontario Employers: Hidden Costs of Bill 148 Legislation

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January 1, 2018 marks an important date for the commencement of many changes as required in Bill 148, Better Workplaces, Better Jobs Act, 2017. Bill 148 addresses a wide range of topics such as minimum wage, equal pay for equal work, leaves of absence, vacations, and more, with significant and far-reaching impact on employers in Ontario. There are a number of aspects of the legislation which can have a compounding impact when examining maintenance requirements under Ontario's Pay Equity legislation.

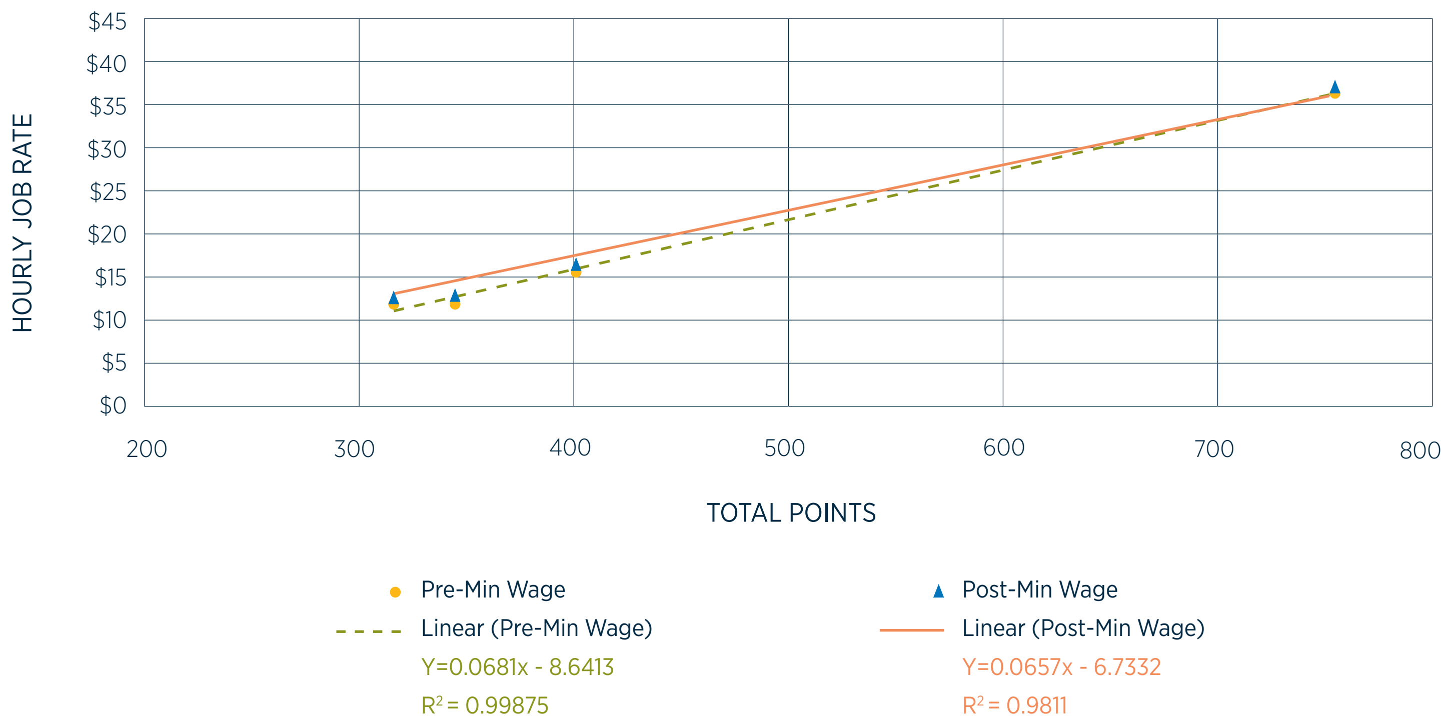
Impact of Minimum Wage and Pay Equity

Bill 148 increases the minimum wage that applies in Ontario (to $14 per hour at January 1, 2018 and $15 per hour at January 1, 2019). The increases in Ontario's minimum wage means that for many employers there is now "compression" in their wage structures. Some employers have been considering addressing compression issues by increasing the pay of jobs that are not directly impacted by the minimum wage increases. We recommend that employers check for any Pay Equity impact as well as part of this change to their compensation structures.

Example: Assume that a 2017 job rate of a male dominated job was $14.50 per hour. The job also serves as a male comparator for several female dominated jobs for purposes of pay equity. With the minimum wage being raised to $14.00 per hour, an employer may choose to change the rate for the male job to $15.00 per hour in order to alleviate compression and maintain existing differentials for that particular male job. Female dominated jobs that use this male job as a comparator would also need to increase their job rates to $15.00 per hour (assuming no other lower paying male dominated job is available to serve as a male comparator).

Employers also need to be aware of the impact of pay equity when using the **Proportional Value (PV)** method of comparison. The likely impact will be that the predicted rates for female jobs without direct male comparators may increase.

Below is an illustration of how the PV line shifts with changes to male job rates. You will note that the red line has shifted upwards as a result of the impact to male job class rates.



While adjustments to the wage rate of female dominated jobs is in compliance with the requirements of the Pay Equity Act, and is also in keeping with the spirit of wage gap closure that is in the news lately, employers need to be aware of the cost impact in order to properly budget for these types of changes.

Impact of "Equal Pay for Equal Work" on Pay Equity Maintenance

As of April 1, 2018, Bill 148 requires that an employer provide the same rate of pay for employees that are casual, part-time, temporary and seasonal, and who do "substantially the same work" as their full-time / permanent counterparts. Differential wage rates can be maintained where there are objective reasons in justification (e.g. seniority systems, merit, production measures or any other factor other than gender or employment status).

Employers should ensure that duties/responsibilities for all positions are reflected in current job descriptions in order to effectively determine comparable value using a gender neutral comparison system (e.g. to objectively evaluate Skill, Effort, Responsibility and Working Conditions required to perform the work). Job evaluation is an invaluable step in determining whether the work performed by casual, part-time, temporary and seasonal employees is "substantially the same" as the work performed by full-time / permanent employees.

Pay Equity Impact: The amendments to Equal Pay for Equal Work provision under Bill 148 has the impact of increasing the pay of certain male comparator jobs in an organization with a corresponding increase to the pay of female jobs that are considered to be equal or comparable value. Under the job-to-job method of comparison, if a part-time male job class that served as a male comparator to full-time female job classes disappears because it has now been "collapsed" to be **the same job** as its full time counterpart, all female job classes which used the part-time male job class as comparator must now also receive the same increase since the new male comparator is the full time job, assuming no other male comparator job of lower pay exists in the band.

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Mergers & Acquisitions: Considerations for Your Benefits & Retirement Programs

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Merger and acquisition (M&A) generally refers to the purchase and/or blending of two or more companies, which often operate in the same or related industries and are under a single corporate umbrella. With the improvements observed in the Canadian economy, we may see an upswing in M&A activity in the next 12 to 24 months.

There are many considerations that must be taken into account during the M&A process, including if any changes should be made to the group benefits and group retirement programs.

When deciding if the group benefits program will be amended, there are a number of factors to consider. Is the intent behind the merger or acquisition that all organizations involved operate as a united entity, or will each company remain independent? If they will remain independent, it may be beneficial to leave the existing benefits programs unchanged, particularly if there are significant differences in plan design. However, if legacy employees from each organization will work together going forward, it is best to implement one plan for everyone. This ensures that the benefits plan is equitable, may help minimize employee resentment, and can help promote the culture of a unified company.

In determining a go-forward benefits plan, it is important to consider what the employer's compensation philosophy for the combined group is, and how the benefits plan aligns with this vision. How should the plan compare to market trends? Will class-based differences in coverage exist? Should employees have flexibility in choosing their coverage? Each of these elements, among others, influence how the benefits plan will be designed. It is also important to be aware of how many employees will be impacted if major changes are applied to the benefits plan.

If one company is significantly smaller than the other, employees will likely be transferred to the larger company's existing benefits program. If both companies are similar in size, it may be more appropriate to design a new plan for all employees. However, if applying the benefits plan from one merger partner over another is under consideration, decision makers should be aware of the value of each program, i.e. is one plan "wealthier" or more comprehensive than the other and the employees' perceived value of each program. A harmonized plan which looks at elements from both existing programs and offers comparable value may help to address these challenges. That being said, decision makers should beware of trying to keep compensation "whole," as this becomes increasingly complex and challenging unless the program is left completely unchanged.

Employers should also consider the administrative complexity tied to changing the benefits plan. If both organizations are with different benefits providers, a decision must be made as to where the future plan will sit, and employees not presently set-up with the carrier must be enrolled in the plan.

When we look at retirement plans, there are two types of pension plans to consider: Defined Benefit (DB) and Defined Contribution (DC). Another common retirement plan is a Registered Retirement Savings Plan (RRSP).

Pension plans come under both Provincial and Federal legislation, whereas RRSPs are only federally regulated. This contributes to the considerably more regulations with pension plans compared to a RRSP. There is also a lack of uniform legislation between provinces, which can be problematic. Vesting is a prime example when trying to match plan design. If you are dealing with different regulatory regimes, ensure the requirements for each jurisdiction are highlighted early in the process so they can be addressed appropriately as Superintendent approval is required.

DB Plan benefits at retirement are pre-defined and usually use factors such as salary history and length of service. The contributions needed to fund the benefits are unknown in advance. However, under a DC & RRSP, the contributions are pre-defined, usually as a percentage of salary.

Similar to reviewing the benefits plan design, it is important to match the retirement features. These may include the following:

- Fund lineup
- Default fund
- Eligibility criteria
- Contribution schedule
- Vesting periods
- Withdrawal restrictions

Where there are unionized employees, it is important to thoroughly review the collective bargaining agreement (CBA) for reference to specific benefit programs, which can only be changed through collective bargaining. Even if benefits are not specifically referenced in the CBA it is a good idea to give the labour relations team advanced notice of any proposed plan changes as these can have an impact on future collective bargaining.

Specific pitfalls to be aware of:

- Use caution before committing to pay equivalent retirement benefits. If the acquired company has a DB pension plan the defined contribution equivalent could be extremely high;
- The contribution room definition is different between a pension plan (percentage of current years earnings) and a RRSP (percentage of previous years earnings). This means that employees may have room to contribute to a pension plan, but not an RRSP.

Employers should not fail to recognize other components of compensation beyond the benefits and retirement programs such as transportation reimbursements, tuition reimbursements, subsidized gym memberships, and flexible work arrangements. These extras can be worth a significant amount of money for those that use them, and can be key in addressing a total compensation strategy.

Above all, communication is the most crucial consideration during an M&A. Change is inevitable, and these situations are often characterized by high levels of uncertainty amongst employees. Whether or not significant changes will be applied to the compensation programs for one or both organizations in the M&A, communication to all stakeholders including leadership, business partners, HR, payroll, and employees is vital to ensuring all parties understand, accept, and support future developments.

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