



BARGAINING BENEFITS

RETIREE BENEFITS

Why are retiree benefits such a big issue these days? More workers are retiring, at younger ages, so many employers faced with paying higher costs for longer, are seeking concessions from workplace benefit plans.

Here are the facts:

- ✿ People are retiring younger....:
 - The average age of retirement in Canada is 62 years.
 - Two-thirds of Canadians retire before the full CPP/QPP age of 65.
- ✿ ...and living longer:
 - In Canada, on average life expectancy after retirement is 21 years for women and 15 years for men.
- ✿ Accounting rules changed in 2000:
 - A Supreme Court decision now requires employers to estimate the “present-value” cost of providing retirement benefits for the life of retirees. The rules now say employers have to budget for the absolute maximum even though that is not the way they will have to pay the benefits.

- ✿ Costs of providing benefits are soaring because of:
 - Government delisting of services like eye exams, means that costs once paid for by taxpayers are shifted to private plans.
 - Drug companies are pushing “Me too” drugs -- newer, more expensive drugs that replace existing, less expensive products, but have no added benefit to patients, just increases to drug company profits!

More people are living longer, which places more demands on the health care system and group health benefit plans. For employers, the combination of earlier retirement and healthier seniors means that benefit plans for retirees must cover them for longer, which increases costs. So the pressure is on at the bargaining table.



Why are retiree benefits important?

Benefit coverage is especially important after retirement because:

- ✿ Retirees face the cost of purchasing individual coverage at the same time as their wages are reduced to pension income.

✿ Individual benefit coverage is far less comprehensive and more expensive, especially for seniors, than the group coverage provided under a collective agreement.

Existing health issues may mean many retirees and/or spouses will be unable to purchase individual coverage. Applicants for individual insurance policies usually must prove "evidence of insurability", that is, be healthy. Insurance companies often reject applications or refuse to provide coverage for pre-existing conditions like diabetes, depression, or heart disease.

Do retiree benefits cost more?

Benefit costs typically escalate with age; however the increase is not always the same across different categories of benefits. Higher costs can be expected in some areas but lower costs in others.

- ✿ Seniors are healthier than in the past. Statistics Canada reports that people with 10 years left before retirement were in relatively good physical and mental health.
- ✿ A 2007 Mercer study looking at the cost of employer-paid benefits as employees age, found that, for most types of coverage—except hospital care and some other major medical coverage—the employer's costs actually decreased as employees aged.
- ✿ According to Aon Consulting's Canadian Benefits Trends Survey, based on 2007 renewals, post-retiree benefits were costing organizations, on average, \$1,543 per member per year.

✿ Aside from drugs, the benefits most used by retirees are supplementary medical benefits like chronic care services, private duty nursing care, homemaker programs and semi-private hospital coverage (though this is becoming redundant as semi private rooms are the norm in new hospitals). Public programs provide some coverage, but underfunding continues to create access problems.

Provincial plans provide different levels of coverage for prescriptions, with a complex mix of eligibility rules, deductibles, and co-payments. Provincial formularies are limited and may not cover retirees' prescriptions. Coverage is especially limited in the Atlantic provinces.

For example, a couple aged over 65 with an income of \$35,000 and in need of \$1,000 of drugs per year, would pay:

- the entire costs in New Brunswick and Newfoundland,
- two-thirds of the cost in Quebec,
- one-third in Ontario and B.C., and
- nothing in the Yukon or Northwest Territories (Source: Canadian Health Coalition, More for Less, 2007).

Research shows that even small increases in individual payments for drugs for low income patients can discourage their use, leading to the need for more expensive health care services such as physician care, emergency department visits, and hospitalization. Ultimately, a publicly funded Pharmacare plan is the best defense against high cost of drugs for retirees and other workers.

Can employers remove existing benefits?

Where retiree benefits exist in a collective agreement, they cannot be eliminated or reduced unless the Employer has reserved the right to amend plans, and has communicated this to employees (i.e. an article in the collective agreement). The decision of the Supreme Court in *CAW vs. Dayco* in 1993, ruled that retiree benefits were vested, and therefore could not be removed.

As a result, we are seeing employers demand two tier benefits for retirees: one plan for existing employees and another for new employees.

What are some options for providing retiree benefits?

Here are some options for retiree benefits and examples of language negotiated by CUPE locals:

- **Coverage in existing group plan until age 65**– Including retirees in the existing plan for active employees provides the best coverage for retirees. If the group is large enough, costs can be spread among the larger group and should not mean a huge increase in premiums. At age 65, retirees are eligible for public drug plan coverage in most provinces so the major portion of retiree drug costs shift from the group plan to the public plan, which will reduce retiree costs to the group plan.

CUPE Local 1589-02 and the Township of Norwich, expiry March 31, 2011

26.03 In case of retirement prior to the age of sixty-five (65), if the employee is fifty-five (55) years of age or older and eligible for early retirement under the OMERS Pension Plan, the Employer agrees to continue the Health Benefits (Extended Health Care, Emergency Travel Assistance and Dental Care) until the employee reaches age sixty-five (65).

✿ **Cost share premiums** – Including retirees in the existing plan but charging them full premiums is usually cheaper for retirees than trying to purchase individual benefits. This option enables retirees to take advantage of the cost savings and coverage extended to the larger group. Negotiating



cost sharing of the premium will reduce retirees' costs even more and provide even more protection.

CUPE Local 1146 and the City of Woodstock, expiry December 31, 2011

RETIREE BENEFITS

- 19 (a) *The following hospital medical insurance will be available to retirees from the date of their retirement, under OMERS. Effective January 1, 2009 the Board shall pay eighty-five (85) percent of the premium. Extended Health Care & Vision Care and Hearing Aids*
- (b) *Such coverage will continue until age 65 or till retiree's death, whichever occurs first, provided that equivalent coverage is not available through other sources and that such premiums are paid on or before the first day of each month or in accordance with other arrangements that may be made with the Board from time to time.*
- (c) *In the event there is an improvement in a benefit set out herein, retirees already in receipt of such benefits will be eligible to receive such improvement, but shall not be entitled to any new benefit that may be added to such coverage.*
- (d) *At time of retirement, if a benefit set out herein is available from other sources, and such coverage ceases, the retiree may apply for such benefit through the Board, provided that at the time of retirement the employee registered the source of such benefit with the Board.*
- (e) *Should an employee, at time of retirement, elect not to participate in a benefit, such benefit or subsequent improvements or new benefits will not be available to the retiree at any time thereafter.*

✿ **Service requirements** – Negotiating a service requirement for retiree benefits reduces costs to employers because fewer employees will be eligible. It has a disproportionate impact on women though,

who may have service breaks because of family or child bearing responsibilities. Where service requirements exist they often require a minimum of ten years service.

CUPE Local 950-23 and the Town of Aurora, expiry March 31, 2013

19.07 Benefits for Retirees

The Corporation agrees to provide retired members who reside in the Province of Ontario with extended health care (vision care increased to \$350 every twenty four month period) and basic dental plan coverage (fixed at a rate one year behind current contract rate). Said the Corporation shall provide coverage to full-time members retiring and in receipt of an OMERS pension who have a minimum of 15 years' continuous service with the Town.

Benefits shall be available until the member attains age 65.

If the retired employee obtains employment elsewhere and is eligible for benefits coverage through that employment, the individual will be responsible for advising the Town of any benefit coverage and the benefits for retirement privilege will be terminated.

✿ **Trusts** – Trust funds are regulated ways to fund present and future benefit costs. Ideally they should be jointly trusteeed with the union, like the Provincial Employee Benefit Trust (PEBT) which provides extended health benefits for school board workers in BC. Putting money into a trust to fund retiree benefits is like a defined contribution plan – each plan member has in their individual account which will vary according to the amount contributed and investment return. Because the employer has no obligation to fund any particular



level of benefit, the employee is left to face the risks on their own. Setting up a trust for

retiree benefits requires access to independent legal and actuarial advice for locals to ensure the benefits are adequately funded and the members'/retirees' rights are protected. Locals should be extremely cautious about any kind of self-funded plan because of the legal and fiduciary risks.

CUPE Local 82 and the City of Windsor, expiry December 31, 2012

N.B.: EXCERPT - DRAFT- LANGUAGE NOT FINALIZED

The Corporation will establish and administer (based on reasonable administrative effort) an Employee Retiree Benefit Account at no cost to the Employee or the Union, other than any charges from third party entities, for each regular full-time employee hired on or after April 18, 2009 and subsequently completes their probationary period. Said employee may elect to have the Corporation deduct an amount per hour for each regular hour worked which shall be invested to the credit of the employee's self funded post retirement account. Each regular full-time employee hired on or after April 18, 2009, shall, on an annual basis, be given the opportunity to

- 1) change the amount of their deduction;*
- 2) opt out of the plan in which case the employee shall receive the return of all of their contributions with accumulated net investment income; or*
- 3) opt into the plan; or*
- 4) In the event that the employee is terminated involuntarily (for cause or otherwise) he/she shall receive the return of all of their contributions along with the accumulated net investment income. Upon the retirement of the employee, the accumulated contributions and net investment income can be used to pay the annual premium for his/her health care plan after the age of 65. Statements will be provided on an annual basis on request for each contributing member. The detailed structure of the plan will be dependent on the best way to minimize any income tax implications. However, all tax and other mandated withholdings are the responsibility of the employee. Furthermore, these new employees shall be made aware by the employer of these options during the new employee orientation sessions. Should an employee die with a balance remaining in his/her employee self funded post retirement account, the balance of said account along with all accumulated net investment income will be paid to the estate of the deceased employee.*

- ✿ **Health Spending Accounts (HSAs)** – HSAs are like bank accounts you can use to pay for expenses covered by the Income Tax Act e.g. prescribed drugs, dental care, vision care, massage therapy and other paramedical services. (For more information see “Bargaining Benefits: HSAs” at cupe.ca) HSAs can pay for deductibles or extras. Healthy



people will be able to buy extras, but the unhealthy will use the money (and likely even more) to pay for increasing employee share of needed services.

HSAs won't help retirees saving up for a particular surgery for example,

because anything left in your HSA at the end of the second year is forfeited to the employer. Retirees will have to manage the account carefully or the employer will end up with the benefit. Studies by benefits specialists show that employees typically forfeit more than \$100 each year in flexible medical accounts.

✿ Here's what average HSA (\$500-\$1500) might buy:

- drugs for cholesterol - \$1,400/ year
- asthma - \$3,000/year
- type II diabetes - \$2,900/year
- glasses - \$1,000

✿ **VEBA** (Voluntary Employees' Beneficiary Association) – During the economic crisis, General Motors (GM) made headlines by agreeing to create a VEBA, a tax-exempt trust used to prefund employee health and welfare benefits. The automotive giant agreed to pay \$26.5 billion into a VEBA controlled by the United Auto Workers (UAW) to shed its healthcare liabilities. However, GM got more than a tax break – they transferred their health care liability to the Union, which may bear some watching. There is currently no equivalent to the VEBA in Canada.

✿ **For health care workers in Ontario**, life insurance through the Hospitals of Ontario Group Life Insurance Plan (HOOGLIP) does provide post employment benefit. If the worker terminates after 15 years of service \$5,000 worth of coverage is provided. It is important to note however that all hospitals do not have HOOGLIP coverage although they are expected to have equivalent to HOOGLIP coverage according to the collective agreement. For health care workers, regular life insurance

coverage ends when they retire or reach age 65, whichever is earlier. At that time retirement coverage is provided at no cost. Retirement coverage provides \$300 for each completed year of service as a full-time employee, to a maximum of \$4,500. (Completed years of service include any qualifying period and any period during which premiums are waived due to disability.)

✿ **Retiree Organizations** –There are lots of examples of established groups of retired employees that offer retiree benefits. For example, in 1984, Municipal Retirees of Ontario (MROO) introduced extended health and dental care insurance plans for retirees who lose their employee benefits on retirement or upon reaching age 65. They also offer several other retiree insurance programs, including life, out-of-Canada medical, home, and auto coverage. The benefits are often pretty basic with low caps – e.g. the MROO plan caps prescription drugs at \$1,300 per year and dispensing fees at \$7, which may not be adequate for many seniors. However, group insurance plans tend to be cheaper than purchasing individual coverage.

Sometimes retiree organizations offer inclusion to members outside of their sector. Negotiating retiree benefits with our employers offers the best option for workers since it can minimize cost and risk. However, other options warrant serious consideration of the long term impact, the cost, the provider, governance, and the benefits to the organization offering the plan. (For example some organizations charge a membership fee for every new

member that grows and benefits the organization.)

Conclusion

Retiree benefits are worth fighting for. They contribute to a better life for retirees, their

families and their communities. CUPE Locals that have gone on strike to protect retiree benefits, which demonstrates the value members put on protecting hard-won retiree benefits. We may well see this trend continue.

[For information on employee benefits for workers age 65 and older see “Bargaining Benefits: Benefits for Active Employees age 65+” at cupe.ca]

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