

ANTICIPATED BENEFIT COSTS FOR 2015

23 SEPTEMBER 2014



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Introduction

The enclosed information is intended to assist with budget projections for 2015. Unless otherwise noted, the information provides projections only with respect to changes in Canadian payroll, government-sponsored plans and private employer benefit plan costs for the upcoming year. Announcements with respect to the final costs of some government-sponsored programs will be released later in the fall.

For additional information please contact your Mercer consultant.

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Salaries

The following provides a snapshot of results from Mercer's Canadian Compensation Planning 2014/2015 Survey.
<http://www.imercer.com/products/canadian-compensation-planning.aspx>

Item	Comments	Projections for 2015
Projected salary increases (percentages exclude organizations with salary freezes)	<ul style="list-style-type: none"> The national average base salary increase in 2014 was 3.0%. This was slightly less than the 3.1% that was projected at this time last year for 2014. In 2014, Executives and Management continued to receive increases above the national average at 3.2% and 3.1% respectively Alberta received the highest base salary increase in 2014 with an average of 3.2%. Saskatchewan and British Columbia (excluding Greater Vancouver) both experienced an increase of 3.0%. Overall, the highest sector increases for 2014 were 3.9% for Energy and 3.1% for Non-Financial Services 	<ul style="list-style-type: none"> Current projections for 2015 indicate that salary budgets will increase by 3.0% 2015 projections for Executives and Management indicate an increase of 3.1% to both groups Highest projections by region for 2015 are 3.2% for Alberta and 3.1% for Saskatchewan Lowest regional projection for 2015 is 2.8% for Quebec and Atlantic Canada. The Transportation Equipment industry is projecting the lowest industry increase of 2.6%. Companies continue to award higher than average increases in the Energy industry at 3.7%, and to top performing employees in all industries

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Employer and Employee Canada/Quebec Pension Plan (CPP/QPP) Contributions

Item	Comments	Projections for 2015
Year's Maximum Pensionable Earnings (YMPE)	<ul style="list-style-type: none"> Actual YMPE for 2015 is expected to be announced in November 2014; the amount is typically increased each January relative to the Average Weekly Earnings The current (2014) YMPE is \$52,500 	<ul style="list-style-type: none"> \$53,600, an increase of 2.10% from current YMPE
Year's Basic Exemption (YBE)	<ul style="list-style-type: none"> YBE of \$3,500 has been in effect since 1996 	<ul style="list-style-type: none"> No change – assume YBE will remain at \$3,500
CPP / QPP Contribution Rate	<ul style="list-style-type: none"> The contribution rate is applied to employment earnings that exceed YBE up to the YMPE CPP: No change has been announced to modify the current (2014) contribution rate of 4.95% for employer and employee, in place since 2003 QPP: The 2014 rate for both the employer and employee is 5.175%. The current combined contribution rate of 10.35% is scheduled to increase by 0.15% per year for the next three years. 	<ul style="list-style-type: none"> CPP: Suggest budgeting for no change in contribution rate for both the employer and employee (9.9% combined) QPP: Suggest budgeting for the scheduled change in contribution rate for both the employer and employee (10.50% combined)
Maximum Annual Contribution	<ul style="list-style-type: none"> Maximum annual contribution amounts in 2014 are as follows for both the employer and employee: <ul style="list-style-type: none"> – CPP: \$2,425.50 – QPP: \$2,535.75 	<ul style="list-style-type: none"> Based on the above projections for YMPE amounts and contribution rates, we estimate the maximum annual contribution amounts in 2015 for both the employer and employee will be: <ul style="list-style-type: none"> – CPP: \$2,479.95 – QPP: \$2,630.25

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Employment Insurance (EI)

Item	Comments	Projections for 2015
EI Contribution Rates	<ul style="list-style-type: none"> The Department of Finance Canada announced that EI rates will remain the same for the next 2 years until 2016 for Canadian Workers Outside of Quebec The employer contribution rate is 1.4X the employee rate 	
Canadian Workers Outside of Quebec	<ul style="list-style-type: none"> Current (2014) EI employer contribution rate is \$2.632 per \$100 of insurable earnings Current (2014) EI employee contribution rate is \$1.88 per \$100 of insurable earnings 	<ul style="list-style-type: none"> No change
Canadian Workers in Quebec	<ul style="list-style-type: none"> Current (2014) EI employer contribution rate is \$2.142 per \$100 of insurable earnings Current (2014) EI employee contribution rate is \$1.53 per \$100 of insurable earnings 	<ul style="list-style-type: none"> Employer contribution rate: \$2.156 per \$100 of insurable earnings Employee contribution rate: \$1.54 per \$100 of insurable earnings
Maximum Annual Insurable Earnings (for all Canadian employees)	<ul style="list-style-type: none"> The contribution rates noted above apply to the maximum annual insurable earnings In 2014, the maximum annual insurable earnings is \$48,600 	<ul style="list-style-type: none"> \$49,500, an increase of 1.9% from current maximum annual insurable earnings
Maximum Annual Contribution	<ul style="list-style-type: none"> Maximum annual contribution amounts in 2014 are: <ul style="list-style-type: none"> In all provinces other than Quebec: \$1,279.15 for employer and \$913.68 for employee In Quebec: \$1,041.01 for employer and \$743.58 for employee 	<ul style="list-style-type: none"> The maximum annual contribution amounts in 2015 will be: <ul style="list-style-type: none"> In all provinces other than Quebec: \$1,302.84 for employer and \$930.60 for employee In Quebec: \$1,067.22 for employer and \$762.30 for employee

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Item	Comments	Projections for 2015
Rate Reductions for Registered Disability Income Plans	<ul style="list-style-type: none"> • EI Premiums are reduced for employers with qualifying sick leave programs: <ul style="list-style-type: none"> — In all provinces: The maximum reduction rate for public and para-public employers of a province is \$0.37 per \$100 of insurable earnings and \$0.34 per \$100 for most other employers 	<ul style="list-style-type: none"> • The maximum reduction rate is decreasing to \$0.36 per \$100 of insurable earnings for public and para-public employers of a province and to \$0.33 per \$100 of insurable earnings for most other employers
Small Business Job Credit	<ul style="list-style-type: none"> • The Department of Finance Canada announced that The Small Business Job Credit is applicable to EI premiums paid by small businesses in 2015 and 2016: <ul style="list-style-type: none"> — The credit is calculated as the difference between premiums paid at the legislated rate of \$1.88 per \$100 of insurable earnings and the reduced small business rate of \$1.60 per \$100 of insurable earnings — Any firm that pays employer EI premiums equal to or less than \$15,000 in 2015 and/or 2016 will be eligible for the credit in those years — The premium reduction will apply in addition to the premium reduction related to Quebec's parental insurance plan 	<ul style="list-style-type: none"> • Since employers pay 1.4 times the legislated rate, the \$0.28 reduction is equivalent to a \$0.39 reduction per \$100 of insurable earnings in EI premiums in 2015 and 2016

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Quebec Parental Insurance Plan (QPIP) – For Quebec Workers Only

Item	Comments	Projections for 2015
QPIP Contribution Rates	<ul style="list-style-type: none"> Current (2014) employer rate is 0.782% of insurable earnings Current (2014) employee rate is 0.559% of insurable earnings 	<ul style="list-style-type: none"> No change
Maximum Annual Insurable Earnings	<ul style="list-style-type: none"> The contribution rates noted above apply to the maximum annual insurable earnings The maximum annual insurable earnings for QPIP usually corresponds to CSST maximum annual insurable earnings In 2014 the maximum annual insurable earnings is \$69,000 	<ul style="list-style-type: none"> It is projected that the maximum insurable earnings will increase to \$69,500 from \$69,000
Maximum Annual Contribution	<ul style="list-style-type: none"> Maximum annual contribution amounts in 2014 are \$539.58 for employer and \$385.71 for employee 	<ul style="list-style-type: none"> Based on the above projections, we estimate the maximum annual contribution amounts in 2015 will be \$543.49 for employer and \$388.51 for employee

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Workers' Compensation – Assessment Rates for 2015

The following are some preliminary findings concerning basic assessment rates and maximum insurable earnings for 2015. In some provinces, company-specific experience may result in discounts or surcharges applicable to basic rates that would otherwise apply. Information on the provincial assessment rates for 2015 is generally finalized in the fall.

Province	Projections for 2015
British Columbia	<ul style="list-style-type: none"> WorkSafeBC announced that the average base premium will remain unchanged at \$1.70 per \$100 of insurable earnings. The 2015 preliminary base rates are available online: http://www.worksafebc.com/insurance/premiums/2015_prelim_rates/default.asp
Ontario	<ul style="list-style-type: none"> The WSIB has announced that premium rates will be maintained at current levels for all employers in 2015. Maximum insurable earnings in 2015 will increase by 1.3% to \$85,200 from \$84,100.
Quebec	<ul style="list-style-type: none"> Maximum insurable earnings will increase to \$69,500 from \$69,000. The average base premium will be lowered by 4% to \$1.94 per \$100 of insurable earnings from \$2.02.
Nova Scotia	<ul style="list-style-type: none"> The WCB has announced that the average rate will remain at \$2.65 per \$100 of payroll, with rates for some industries reducing by 10% or more and others increasing by 20% or more
Other	<ul style="list-style-type: none"> Alberta, Manitoba, New Brunswick, Newfoundland and Labrador, Northwest Territories, Nunavut, Prince Edward Island, Saskatchewan, and Yukon: <i>2015 preliminary figures are not available at this time</i>

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Provincial Healthcare – Contributions

Province	Contribution Basis	Contribution Amount/Formula for 2014 and Projected for 2015
British Columbia	Monthly Premium Rates	<ul style="list-style-type: none"> Medical Service Plan (MSP) premiums are increasing to keep in line with escalating health care costs Current (2014) monthly rates: \$69.25 Single / \$125.50 Family of Two / \$138.50 Family of Three or More MSP monthly premium rates effective January 1, 2015 will be increasing to: \$72.00 Single / \$130.50 Family of Two / \$144.00 Family of Three or More
Manitoba	% of Payroll	<ul style="list-style-type: none"> For payroll less than \$1.25 million, employers are exempt For payroll between \$1.25 million and \$2.50 million, employer contribution is 4.3% on the amount in excess of \$1.25 million For payroll greater than \$2.50 million, employer contribution is 2.15% of payroll
Newfoundland and Labrador	% of Payroll (Health and post-secondary education tax)	<ul style="list-style-type: none"> For payroll less than \$1.2 million, employers are exempt For payroll in excess of \$1.2 million, employer contribution is 2% of payroll
Ontario	% of Payroll	<ul style="list-style-type: none"> Effective January 1, 2014, the 2013 Ontario Budget proposed that Employer Health Tax (EHT) exemption will be increased from \$400,000 to \$450,000 for small employers (including small businesses, charities, and not-for-profit organizations). The exemption will be adjusted for inflation every 5 years using the Ontario Consumer Price Index and expected to rise to \$500,000 by 2019. The EHT exemption will be eliminated for private-sector employers (including groups of associated employers) with annual Ontario payrolls over \$5,000,000. All Other Employers: 1.95% of payroll, but the first \$400,000 of payroll is exempt for most employers
	% of Earnings	<ul style="list-style-type: none"> Individuals: Ontario Health Premium of up to \$900 for residents earning more than \$20,000 in taxable income

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Province	Contribution Basis	Contribution Amount/Formula for 2014 and Projected for 2015
Quebec	% of Payroll	<ul style="list-style-type: none"> • Employers: <ul style="list-style-type: none"> – For payroll equal to or less than \$1 million, employer contribution is 2.7% of payroll – For payroll between \$1 million and \$5 million, employer contribution is on a graded scale – For payroll of \$5 million or more, employer contribution is 4.26% of payroll
	% of Earnings	<ul style="list-style-type: none"> • Individuals: <ul style="list-style-type: none"> – Quebec residents contribute 1% of most non-salary taxable income in excess of \$14,000 (excluding the portion between \$29,000 and \$48,670) up to a maximum contribution of \$1,000
	Premiums	<ul style="list-style-type: none"> • Individuals: <ul style="list-style-type: none"> – Health Contribution: <ul style="list-style-type: none"> – No health contribution applied to individual income of \$18,175 or less. The contribution will gradually reach \$100 for income between \$18,175 and \$40,390. – Contribution between \$100 to \$200 for all individuals with income of \$40,390 to \$131,260 – Contributions between \$200 to \$1,000 for individuals with income greater than \$131,260 – \$1,000 for taxpayers with income of \$150,000 or more – Residents covered under the Quebec Drug Insurance Plan: annual premium of up to \$611 from July 1, 2014 to June 30, 2015
Alberta, New Brunswick, Nova Scotia, Northwest Territories, Nunavut, PEI, Saskatchewan, and Yukon	None	<ul style="list-style-type: none"> • Healthcare funding for these provinces / territories is funded through general provincial / territorial revenue

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Private Employer Plans

Benefit	Comments	Projections for 2015
Basic Life	<ul style="list-style-type: none"> Premium adjustments will be specific to your actual group and will be largely influenced by changes in demographics, claims experience (to the degree it is credible), the insurer's manual rates and your plan design. 	5% to 10%
Short Term Disability	<ul style="list-style-type: none"> Plan costs will be specific to your group's own experience. The aging population, mental and nervous conditions, musculoskeletal injuries and cardiovascular diseases are all key cost drivers. 	10% to 15%
Long Term Disability	<ul style="list-style-type: none"> Renewal rate adjustments will be specific to your own group and experience. Insurers continue to report increased claims cost, driven by the aging population and low interest rates. Interest rates impact the reserve requirements and increase the claims costs charged against the experience. While we suggest budgeting in the range shown, some organizations are experiencing higher increases, with renewals up to 20% or more, particularly for the first renewal after the expiry of any marketing rate guarantees. The budgeted projections shown are for LTD plans where the renewal rating is based at least in part on both demographics and the insurer's manual rate. 	10% to 15%

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Benefit	Comments	Projections for 2015																		
Extended Health	<ul style="list-style-type: none"> Prescription drugs typically represent 65% to 75% of total health plan costs and are a main driver of overall Health trend. Express Scripts Canada (ESC) reported a small increase in drug trend for Canada in 2013 of +1.3%. Negative trend was reported by ESC in most regions, with only Québec and Ontario showing positive trends (+2.2% in Ontario, +4.3% in Québec). These trends are largely driven by the shift to generic drugs due to patent expiries and provincial generic drug price reforms, which took effect at different times across Canada. Alberta, British Columbia, and Québec have generic price reductions taking effect in 2014. Costs for newer "specialty" drugs used to treat chronic and complex conditions continue to increase. Since the cost of these drugs is much higher than traditional drugs (the average cost per script for specialty drugs in 2013 was 28 times higher than the cost of traditional drugs), specialty drugs make up an increasing proportion of overall drug spend (24.2% in 2013 compared to 13.2% in 2007). While costs for traditional drugs are expected to remain flat over the next year, increases for specialty drugs are expected to be as much as 10% to 15%. It is important to ensure an appropriate level of pooling protection is in place to protect your plan from high cost drugs. We note that the pooling charge is commonly increasing annually at rates in the double digits and is frequently a non-negotiable item. The pooling threshold should be reviewed on a regular basis to maximize value to the plan sponsor. Insurers continue to apply trend factors of 11% to 13% per year. Mercer suggests budgeting for a health cost trend in the range as shown. Organizations with a higher proportion of paramedical claims or an increasing incidence of high cost drugs will see their overall trend in the higher end of the range. Lower than indicated trend is expected in provinces that have more comprehensive coverage for drugs through their provincial programs. 	5% to 8%																		
Dental	<ul style="list-style-type: none"> Increases in dental costs are driven by provincial fee guides and plan utilization. Dental fee guide changes for 2014 ranged from 1.8% to 3.1%: <table data-bbox="478 1101 1346 1214"> <tbody> <tr> <td>BC</td> <td>1.80%</td> <td>NS</td> <td>2.03%</td> <td>NL</td> <td>2.50%</td> </tr> <tr> <td>QC</td> <td>2.00%</td> <td>PE</td> <td>2.04%</td> <td>NB</td> <td>3.00%</td> </tr> <tr> <td>ON</td> <td>2.01%</td> <td>SK</td> <td>2.30%</td> <td>MB</td> <td>3.10%</td> </tr> </tbody> </table> For Alberta (where insurers determine their own reimbursement basis), the adjustments predominantly ranged from 3.4% to 5.1%. Beyond the fee guides, utilization also impacts dental plan costs. We recommend budgeting for an increase of 5% to 8% as shown, which is in line with insurers' projections. 	BC	1.80%	NS	2.03%	NL	2.50%	QC	2.00%	PE	2.04%	NB	3.00%	ON	2.01%	SK	2.30%	MB	3.10%	5% to 8%
BC	1.80%	NS	2.03%	NL	2.50%															
QC	2.00%	PE	2.04%	NB	3.00%															
ON	2.01%	SK	2.30%	MB	3.10%															

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Recent Tax and Legislative Changes

Health Related Tax Relief

The Economic Action Plan for 2014 proposed measures to expand health-related tax relief. As of February 12, 2014, Canadians will no longer have to pay Goods and Services Tax/Harmonized Sales Tax (GST/HST) on naturopathic doctors' professional services.

The action plan also proposed:

- Expanding the Medical Expense Tax Credit list of eligible services to include costs associated with service animals, and adding prescribed eyewear specially designed to electronically enhance vision

Tax Withholding for Disability Benefits

The Canada Revenue Agency modified the Employer's Guide - Payroll Deductions and Remittances to reflect that insurers and trusts (which are not obliged to withhold CPP or EI) paying taxable disability benefits must withhold income tax.

New Brunswick Drug Insurance Act

As of May 1, 2014, New Brunswick introduced a voluntary premium-based public drug program for uninsured individuals. Mandatory provisions for this program will be effective April 1, 2015, as well as mandatory terms for private plans. It is projected that this will have a significant impact on private plans.

Self-Insured Long-Term Disability (LTD)

Ontario's 2014 budget proposed to introduce an amendment to the Insurance Act to prohibit the provision of LTD benefits in Ontario unless they are provided through an insured arrangement with a licensed insurer. Effective July 1, 2014, federally regulated private sector employees were required to insure LTD benefits on a go forward basis.

Ontario Retirement Pension Plan

The July 2014 budget proposed to introduce an Ontario supplement to the CPP, the Ontario Retirement Pension Plan (ORPP).

The ORPP will mirror some of the structure of the CPP: it will be mandatory, earnings-and-formula based, and will be administered by a non-profit, arm's length entity with a strong governance model.

Participation will be phased in commencing in 2017, beginning with the largest employers. Contributions totaling 3.8% of salary, to a maximum of \$90,000 will be equally shared between employers and employees and will be phased in over two years.

Leaves of Absence

Effective October 29, 2014, the statutory leaves of absence offered to employees under Ontario's Employment Standards Act, 2000 (the ESA) will be expanded to include "family caregiver leave," "critically ill child care leave" and "crime-related death and child disappearance leave." This expansion comes as a result of the Employment Standards Amendment Act, also known as Bill 21, which received Royal Assent on April 29, 2014.

Notably, these leaves of absence will be in addition to "family medical leave" (available when an employee's family member has a serious medical condition with a significant risk of death occurring within 26 weeks), as well as "personal emergency leave."

This document is intended as an overview of anticipated benefits costs for 2015. The information in this document in no way constitutes specific advice and should not be used as a basis for formulating business decisions.

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