# OVER the WIRE

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Employee Benefit Funds Administration ALBERTA

# Understanding Your Pension Plan

This is the first in a series of planned articles that are intended to help you understand how your pension plan works.

The Electrical Industry Pension Trust Fund of Alberta (the "Plan") is a defined benefit plan designed around the concept of pooling of contributions and risks. This is one of the most significant advantages and strengths of defined benefit plans.

With pooling, all of the assets are held in a single trust fund account that belongs to all the Plan Members. There are no individual accounts for each Plan Member and no single Plan Member owns any specific assets or portion of the assets. There are a few significant advantages arising from the pooling of assets. Firstly, with a larger pool of assets, the Plan has access to some investments that are not available to smaller investors.

THIS ISSUE



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**The Plan currently has over $1 billion in assets and can attract the interest of all professional investment managers.**

A larger asset base also results in economies of scale, which translates into lower fees. On average, the Plan's investment fees and expenses are 1% to 2% per annum lower than those charged to individual investors. Over an individual's 35-year work period, just a 1% annual fees savings will compound into a 25% larger pool of assets available to pay benefits to all Plan Members. For on-going defined benefit pension plans like yours, the savings are even more pronounced, allowing your Plan to provide higher benefit levels for every dollar contributed.

Pooling is also used to minimize risks for all Plan Members. A 60-year old electrician retiring today is expected to live and receive a pension until about age 86. Some will have a shorter life expectancy, while others will live longer. The vast majority of married Plan Members select an option that pays their spouse a lifetime pension should they predecease their spouse. This approach allows the Plan to pay all pensions for as long as all Pensioners live and not stop paying benefits if a Pensioner lives longer than expected. The possibility of outliving one's savings is called "longevity risk" and it is one of the risks associated with defined contribution arrangements such as RRSPs, where an individual can run out of money while he is still alive.

The Pension Plan is governed by a Board of Trustees (the "Board"), with three Union Trustees appointed by the IBEW Local Union 424 and three Employer Trustees appointed by the ECAA. To assist with the operation of the Pension Plan, the Board hires an actuary to estimate the cost of all future benefits to be paid to all Plan Members, including their spouses and beneficiaries. These cost estimates are then used to determine the minimum hourly contribution rate that is required to support the Pension Plan. Since the Board has no direct ability to set the employer contribution rates, they can only advise the Union and the ECAA if an increase in the contribution rates is required. If a situation ever arose where higher contribution rates were required, but an increase in the contribution rates could not be included in the collective agreement, then the Board would be required to reduce benefit levels. Through the good governance of the Board,

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this has never occurred in the Plan's over 40 year history. However, with the increased volatility in the world's investment markets, it is not possible to guarantee that benefits will never be reduced. To minimize this risk, the Board closely monitors the Plan's asset mix and the performance of its professional investment managers, making changes along the way as required.

Once the contribution rates are set in the collective agreement, employers are required to contribute that amount to the Plan for your hours of work. This is how the Plan as a whole gets funded.

Unless you are already receiving a pension from the Plan, when employers contribute to the Plan for your hours of work, you get credit for those hours of covered employment which are then converted into a monthly pension amount. Since 2001, you have earned $6.00 in monthly pension, at age 65, for every 100 hours of credit you receive.

As you can see from this description, there is no connection between the amount of contributions remitted for the hours you worked and the amount of pension you receive. Unless you have already retired and are in receipt of a monthly pension, what really matters to you are your hours of covered employment, as these will dictate the amount of pension you ultimately receive from the Plan.

Part 2 of Understanding Your Pension Plan will be in the spring 2017 newsletter. Stay tuned to learn all about the various pension options available to you when you retire.

## Definitions

**Economies of Scale:** Proportionate saving in costs gained by an increased level of production.

**Defined Benefit Plan:** A pension plan in which an employee's pension payments are calculated according to a defined formula.

**Longevity Risk:** Is any potential risk attached to the increasing life expectancy of Pensioners and policy holders, which can eventually translate in higher than expected pay-out-ratios for many pension funds and insurance companies.

**Actuary:** A business professional who deals with the measurement and management of risk and uncertainty.

**Asset Mix:** The classification of all assets within a fund or portfolio. For example bonds and equities.

# Your Drugs Benefit Plan

**The mission statement of the Benefits Plan has always been to provide the greatest number of medically necessary benefits to the greatest number of Plan Members.**

On June 1, 2015 a prescription drug card was added to your Benefit Plan providing convenience for Plan Members. You no longer have to pay the full cost of your eligible drugs up front and submit a paper claim for reimbursement. Now, simply provide your drug card to the pharmacy when paying for your eligible prescription amount and pay the difference not covered by your drug benefit plan.

The drug card has also provided valuable statistical information, not previously available, for review by the Trustees. Based on a review, changes are being made to your Plan. These changes ensure that the Plan continues to pay for prescription drugs that are medically necessary at a reasonable cost.

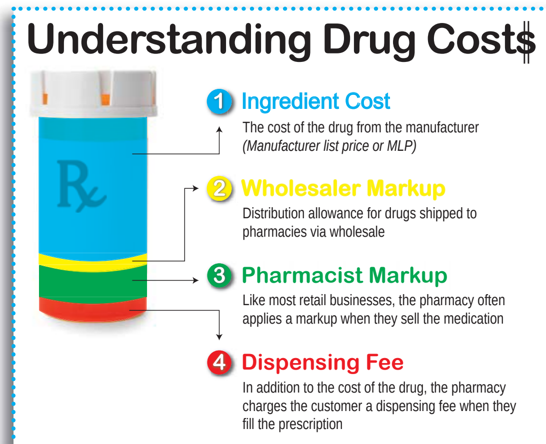
## Interesting Facts

### Prescription Drugs Benefit – Dispensing Fee

Alberta is one of the few provinces where pharmacies do not disclose the dispensing fee on a customer's paper receipts.

A review of the Plan's statistical information showed that the average dispensing fee charged to members was $8.36.

98.7% of Plan Members were charged a dispensing fee of $12.99 or lower. Unfortunately some pharmacies took advantage of your Plan not having a maximum dispensing fee, with charges as high as $90.75 in some cases.



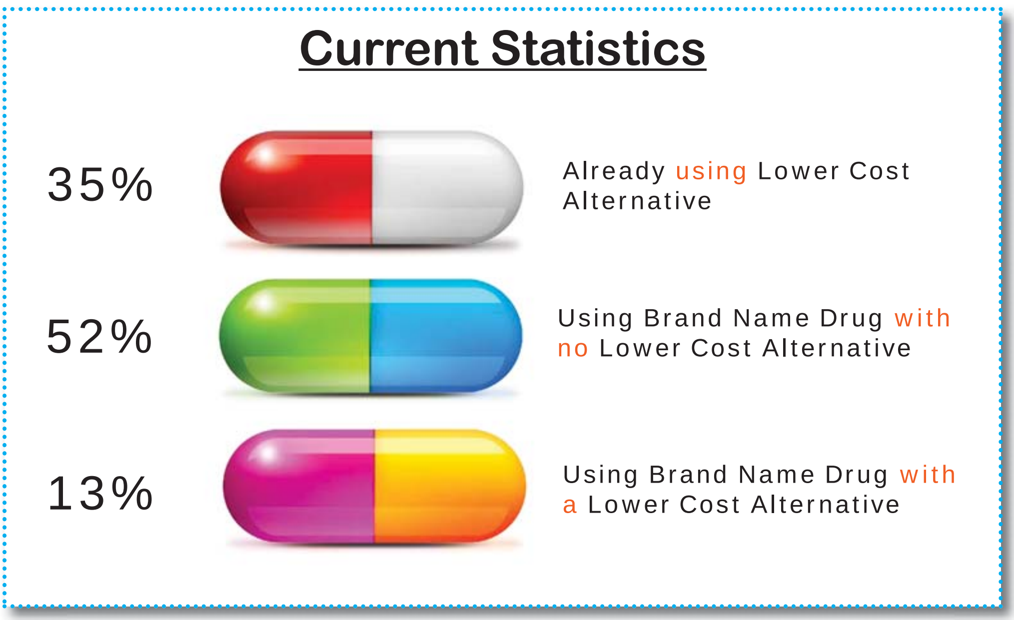
## Unfortunately some pharmacies took advantage of your Plan not having a maximum dispensing fee, with charges as high as $90.75 in some cases.

### Prescription Drugs Benefit - Lower Cost Alternative

35% of Plan costs are for Lower Cost Alternative Drug (LCA).

52% of Plan costs are for Brand Name Drugs (BND) that do not have a Lower Cost Alternative Drug (LCA) available.

Some Brand Name Drugs (BND) also have a Lower Cost Alternative (LCA), usually referred to as a generic drug. The generic drug will be equal to the BND in its active chemical ingredients. Currently, only 13% of Plan costs are for a drug that is available as both a BND and LCA drug.




### Prescription Drugs Benefit – Prior Authorization Drugs

Currently certain drugs do not require prior authorization before being covered under your Plan. Prior Authorization helps ensure only drugs required for medically necessary treatments would be covered. Certain drugs can be used for a number of different treatments, some medically necessary and some for other purposes. For example:

Botox for Hyperhidrosis – medically necessary
Botox for Cosmetic Purposes – not medically necessary

### Prescription Drugs Benefit – Fertility Drugs

Less than 1% of Plan Members use fertility drugs.

# 5 Important Changes To Your Group Benefits Plan

## Effective January 1, 2017

**Weekly Disability Income Benefit**

The waiting period is **reduced** from 14 days to 7 days. In addition the maximum payment duration is **increased** to 51 weeks from the current 50 weeks.

**Prescription Drugs Benefit – Dispensing Fee**

Coverage for dispensing fees are limited to a maximum of $13.00 per perscription. There will be no change to the 90% coverage amount.

**Prescription Drugs Benefit - Lower Cost Alternative**

All prescriptions filled for Brand Name Drugs with a Lower Cost Alternative (LCA) will have the LCA price applied to the claim. Should you wish to pay for the higher cost Brand Name Drug, you will be reimbursed up to the LCA cost. There will be no change to the 90% coverage amount.

**Prescription Drugs Benefit – Prior Authorization Drugs**

A listing of these drugs and the required form can be found at **http://en.nexgenrx.com/forms** or by phoning NexgenRx toll free at **1-866-424-0257**.

**Prescription Drugs Benefit – Fertility Drugs**

The coverage for fertility drugs is limited to a maximum of $5,000.00 per person per calendar year with the lifetime coverage up to a maximum of $15,000.00. Your benefit will cover the average annual cost of treatment for up to three years.

## Is your information up-to-date?

Help the Fund Office serve you better by advising them of changes to your personal information such as:

*> Your mailing address, e-mail address and phone numbers*
*> A recent addition to your family*
*> A change in your marital status*

To ensure your Group Benefits claims are paid without delay please report changes on the Registration and Declaration Of Beneficiary Form. Copies can be found at *http://www.ebfa.ca/PDF/RegistrationForm.pdf* or by phoning the ***EBFA office (780) 465-2882.***

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