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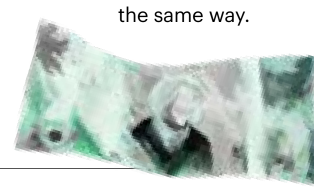

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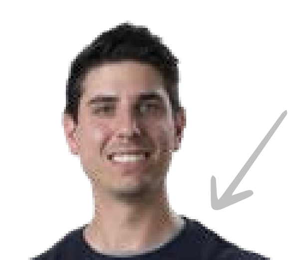

INSURANCE Journal

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P&C Day held annually attracts some 900 participants, 30 speakers and 70 exhibitors and sponsors.

On Thursday, April 13, 2023 at the Palais des congrès de Montréal and on portail-assurance.ca/jad

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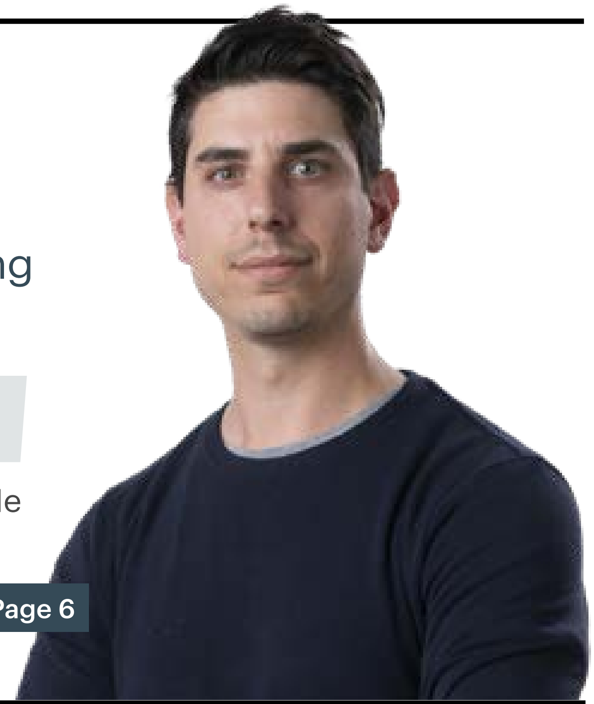
Something to think about...



It's not just about building the partnership, it's also about customizing our products and thinking about how they match the channel that we're looking to partner in.

— Andrew Ostro, co-founder and CEO of PolicyMe

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In this issue...

The C-Suite INTERVIEW

Business to consumer insurance provider expands operations

Technology company and online insurer, PolicyMe, raises $18-million in funding for expansion into critical illness, employee benefits and affinity partnerships.

BY KATE MCCAFFERY

PolicyMe and its founders believe that the process of buying life insurance is flawed. The company believes it can help people do better, and its backers would appear to agree – the firm recently raised $18-million for a number of new initiatives, including expansion into Quebec, new product development and partnerships that will allow the firm to sell its product, process and service through third parties.

A unique business model, the direct-to-consumer platform relies on paid advertising through Facebook and Google, search engine optimization and a focus on content which both helps the customer through the life insurance buying process, but also helps the company rank highly in search results. An affiliate program where a large number of low volume "partners" drive traffic to PolicyMe's website rounds out the firm's lead sources.

What is unique is that since its inception in 2018 as a coverage calculator and price comparison platform, the firm has since partnered with **Canadian Premier Life Insurance Company** (its parent company, **Securian Financial**, is one of the firm's financial backers contributing to its most recent $18-million fundraising effort, as well). The two companies together created a term life insurance product from scratch, one that was specifically built for the company's platform and operations. "They've worked quite closely with us to design and build a whole new product," says PolicyMe's co-founder and CEO, **Andrew Ostro**.

The firm in turn manages underwriting through its platform, including the application process, record keeping, payment processing and identification verification. "That's quite different than a typical broker, even one that might look like they're selling their own product," Ostro adds. "I think it's a pretty unique business model that doesn't really fit into any of the current company categories out there."

Underwriting risks and keeping costs low

Being disconnected from legacy infrastructure Ostro says allows the company to underwrite risks at a greatly reduced cost. "It costs us less to underwrite an individual, but also we're not wasting underwriting dollars on customers who are low intent," he says.

Comparatively speaking, he points to the brokerage practice of shopping a client's application around with several different carriers when trying to place the business. "What ends up happening is a lot of carriers are spending money underwriting a customer with a very low probability of buying. Those costs need to be paid somewhere. It's generally paid for by the people who do buy."

He says PolicyMe's product is not to be confused with simplified products offered by incumbent carriers, either.

While these have gained a lot of traction in recent years, he says this is really just an admission that it can be difficult to get clients to complete a full application. Although shorter applications contain fewer questions, the resulting data he says has less underwriting credibility and the products end up costing more. "In my view, that's absolutely the wrong thing to be doing," he says.

In discussing his own firm's challenges getting clients through applications online, he says initially between 30 and 40 per cent of those who started an application with the company completed it. Today that number sits at 60 per cent.

He says this progress comes as a result of the company's constant effort to chip away, optimize and improve its rules, improve client questions and think about how to get the customer through the process while still effectively underwriting the risk. "This is not just about selling insurance, it's about selling insurance to good risks and making sure that we're underwriting effectively. Anything we do to improve the customer experience does not come at the expense of additional risk or lower quality underwriting."

Automating the underwriting decision-making process, he says is the hardest part of the operation. "The amount of data and the number of rules involved in making an underwriting decision is quite high and the risk of getting that wrong is extremely high as well."

As soon as clients provide text entries into their application, for instance, the application cannot be underwritten in real time. "Maybe one day," Ostro says, discussing artificial intelligence and other technologies that can interpret text and turn it into rules which can be used in the process. "That's pretty far out from where we are today though," he says.

Andrew Ostro

"Being able to adapt the questions to get all the information needed and do it in a way that doesn't require text," he adds, is "quite a tricky proposition."

The focus of the company's founders, their approach and the way the firm is interested in building sales might also be somewhat unique in that they are not focused on maximizing individual sales. The firm is instead focused on volume business with a strong brand being one of the company's pulling features. "We really feel like we should be focusing on what the customer needs, not on maximum profit per person," he adds. "Quite the opposite."

According to Ostro, the firm's recommendation engine, for example, will actually recommend that the would-be client probably doesn't need the product about 26 per cent of the time. "In fact, 26 per cent or so of people who go through our platform, the recommendation to them is not to buy any life insurance. And these are leads that we've paid for," he says. "We've been very intentional about how we've built our advice algorithms."

While the company is able to underwrite policies up to $5-million as well, he adds that really high-net-worth clients with lifestyles that are not at all driven by their income are also not the company's target market in any way. "There's a lot of money in selling those products, but that's not what we do. We refer them to other brokers," he says.

New critical illness provider

Where the company does plan to grow, he says, the two areas of spending where it plans to work in the next two years, includes spending on product expansion and partnership development.

To that end, the company announced that it will be launching a new critical illness product before the end of 2022. Ostro says the effort is a continuation of the company's goal of providing low priced, high value products with a lot of coverages. (The company says the new product will include coverage for more than 40 illnesses.)

"We've approached that broad design to look at really raising the bar for what that looks like in Canada and what can be offered or included in a policy like that," he says.

In addition, although Ostro keeps the details a closely guarded secret, he adds that the company is working on products in the health and dental space, as well.

The second category of spending, on partnerships, will see the company focusing on efforts to build out arrangements with third parties, including two as yet unnamed fintech companies and also unnamed employee benefits partners, to provide embedded products through those channels.

What is different from its smaller scale affiliate program, is that the company, along with the Canadian Premier Life Insurance Company, is again, specifically designing unique products for these partnerships. Ostro says the products are not white-labelled solutions.

"It's not just about building the partnership, it's also about customizing our products and thinking about how they match the channel that we're looking to partner in."

In addition to employee benefits – an area Ostro says PolicyMe is looking at closely – he says the mortgage and homeowners' space is the second area of focus for the company, followed by an interest in large affinity partnerships with member associations. He says many of the company's plans will be made public in 2023.

PRODUCT COMPLEXITY AND INDUSTRY OPPORTUNITY

The wide variety of complex products with myriad product features available in the industry today is too much for a lot of consumers to fathom, let alone process. "It confuses the customer and, in my view, it actually leads to fewer sales overall," says PolicyMe co-founder and CEO, Andrew Ostro.

"There are a lot of people out there who are uninsured, not because they don't have an interest in being insured but because it's too complicated to understand what they should be buying."

He adds that there is a huge opportunity for the industry to go back to basics and simplify their offerings to what they were before features were added. "They really should be focused on pure protection, focusing on getting people covered, without complicating with all the bells and whistles that don't drive a lot of value to customers."

The CEO says he expects to see a move towards offering simpler products which clients can comprehend on their own. "It's very clear, that's what consumers want. It's not just an insurance problem, it's every industry. People want to educate themselves and do their own research. People want to be confident that they're buying the right thing," he says.

"There's a perception by customers in general that if someone is getting a commission to sell me something, I need to have my guard up – in any industry. I think the insurance industry needs to recognize that."

COMPANY FACTS:

Co-founded by Andrew Ostro (CEO), **Laura McKay** (COO) and **Jeff McKay** (CTO) in 2018, the company recently raised $18-million from five investors – **RGAX**, Securian Financial, **Siriuspoint**, **HCS Capital** and **Westdale Properties** – investments that were rounded out with lending from a tier 1 Canadian bank.

- Started selling policies in 2019.
- Launched its own product in 2021.
- Three-person operation grew to 10 employees in March 2020. Today that complement sits at 45 employees; company has plans to add an additional 25 roles within the next 12 months.
- Company reports selling more than $5M in premium annually and over $5B in coverage since its inception. Revenue for the company also reportedly tripled in 2021.

DECUMULATION AT RETIREMENT

Advice is indispensable in a volatile market

Experts are urging advisors to set up their client's retirement plan early, and to guide them along this obstacle-strewn road. Amid today's economic turbulence, advice on the timing of decumulation is more valuable than ever.

BY ALAIN THÉRIAULT

Insurance Journal sources say that advisors must get clients to commit to their retirement plan, and that this plan must remain flexible to deal with the unexpected. **Moshe A. Milevsky**, a finance professor at **York University**'s **Schulich School of Business**, specializes in longevity risk, that is, the risk that retirees will exhaust their savings before death. According to Milevsky, the current context of inflation and sagging financial markets clearly demonstrates that a static retirement plan is woefully inadequate.

Milevsky points out that in these unprecedented economic times, the four per cent decumulation rule should be rejected outright. This once widely used rule assumed that retirees can safely withdraw four per cent of the value of their portfolios annually. The assumption was based on a retirement portfolio consisting of equal parts of equity and fixed income securities. The rule implies adjusting withdrawals for inflation each year. "I think (the rule) was never a good strategy and now we're seeing why," Milevsky says.

"We'd just finished a research project with colleagues from the mathematics department pointing out at how difficult it is to give (retirement income) guarantee," he adds. The study, called *Refundable Income Annuities: Feasibility of Money-Back Guarantees (M. Milevsky & T.S. Salisbury, 2022)*, finds that traditional life annuities cost older people more than they do younger people. It looks at the feasibility of annuities that would pay out a lump sum to their holders who outlive the group's life expectancy.

The longevity risk specialist believes that the retirement plan must remain flexible and should be prepared as early as possible. Milevsky draws a parallel with overconsumption of alcohol. "It's like saying that it's not good to drink too much, but we only see it when our liver fails. Did the problem begin now when the liver fails, or 20 years ago when one began to drink too much?"

For investors, it's their retirement portfolio that is ailing, the finance professor continues. "It's worth a fraction of what you've started with. You go to the doctor, the financial advisor, and ask: 'what do I do, my liver failed.' I don't want to push the analogy too far but it's a start for a conversation," he explains.

Financial advisors need to understand that the conversation with clients moving into retirement is more complex, says Moshe Milevsky. "When I'm 30 or 40 years old, how much stocks and bonds should I put in my RRSP is an easy question for an advisor. I can answer it in an elevator. 'Put 60 per cent stocks and 40 per cent bonds,'" he says. However, for clients about to retire, advisors need to ask a much more detailed question before providing advice, the professor points out.

By the time a client gets to the decumulation phase, it is often too late to tweak the plan, says **Tony Guzzo**, founding president of financial services firm **Expertiz Gestion de patrimoine**. "There aren't a ton of solutions," he adds. "At the beginning of the decumulation phase, the advisor recommends that clients set aside enough cash in a daily interest account for 12 months of withdrawals." This strategy is particularly useful when financial markets are down. "The clients withdraw the money they need each month, and we leave the rest of their portfolio invested," Guzzo says. Clients may miss out on return opportunities for that cash portion over the next 12 months, but the strategy will pay off in terms of average cost over the longer term, the advisor believes.

The current economic environment is also negatively impacting decumulation. "Inflation will take a bite out of your payouts, and you can't avoid it," Guzzo warns. The decumulation options vulnerable to inflation include the non-cost-of-living annuity, which can erode investors' purchasing power. He also notes that clients may have to dip more into their Registered retirement Income Fund (RRIF), reducing the length of time they can withdraw from the fund.

Tony Guzzo mentions that his clientele of financially comfortable entrepreneurs is not overly troubled by inflation. Even so, he notices that they are consuming less. "Clients who have sold their businesses for millions of dollars are spending less on luxuries, less on expensive trips. They understand that now is not the time to buy non-essentials. They are waiting."

Guzzo stresses the importance of taking charge well in advance of your planned retirement date. The plan should include a projection that identifies a systematic savings amount. Even younger people should prioritize saving, on a regular basis, he says. "It's not how much you save that's important, but when you start. The key for younger clients is to set aside an amount every month. Often, people make a budget without structuring the savings portion for retirement. Then the saving doesn't happen," says Guzzo. Instead, he recommends determining how much to save each month, before setting a budget. "The money then goes into investments rather than staying in the bank account. Maybe you'll go out to dinner twice a month instead of five times. Because your budget restricts spending, it creates your savings," he says.

MR Gestion de patrimoine et solutions collectives accepts new clients only if they agree to make a retirement plan, says co-founder **Alexandre Moïse**. "We absolutely need to work with a plan. Whether it's for retirement, asset protection, estate planning or intergenerational business transfer, 360-degree financial planning is always there," he says.

Decumulation should be part of the conversation once the client is well established, he adds. "The first goal of a 25-year-old professional will not be retirement, but perhaps a home purchase. It's in their early 30s, when they become more financially secure, that the question of retirement comes up," Moïse says. He echoes Tony Guzzo's view that time is one of the determining factors in the plan. "This point will be brought up in the initial analysis with the client. Even if some parameters are not clear to them at the moment, they need to understand how the actions they take now will affect their savings later. By setting ➜

Moshe A. Milevsky

Tony Guzzo

Alexandre Moïse

Chantal L'Espérance

Marco Madon

Amélie Laferrière

benchmarks, the financial plan helps them visualize the long-term effect of saving 10 per cent of their gross income annually, for example," he explains.

Over time, the vision will strengthen, adds Moïse. "Clients in their 40s and beyond want to accelerate their retirement plans or reduce their work week. They wonder what the impact will be on their income. Clients pay us to provide sound advice on such matters. This advice is more than just value-added, it's mandatory," he says.

Value of advice

"Financial planning of decumulation at retirement is an area where advisors can demonstrate their added value through their follow-up and support services during the various stages of the client's life," says **Chantal L'Espérance**, strategic advisor in financial planning and insurance at the **SFL Wealth Management Northwestern Quebec** branch (**Desjardins** network).

Planning a client's decumulation means taking a static picture, projecting it into the future and making adjustments afterwards, using an appropriate tool. In a joint presentation, L'Espérance and **Marco Madon**, president and co-founder of **Innovations Maxomsoft**, presented a retirement planning case using Maxomsoft's **LIFE*Plan*** software. "Pierre Lafortune's fictitious case definitely piqued the audience's interest," L'Espérance says. The two professionals will talk about how the software was used in this projection at the *Congrès de l'assurance de personnes 2022*, on November 15.

"LIFE*Plan* is a solution that lets us follow the client's evolution and see the different stages of life where crossroads appear. Sometimes, we give a new client a second opinion," Chantal L'Espérance told *Insurance Journal*.

Decumulation should be talked about early, and not in an offhand way, adds L'Espérance. "Advice on the fly during RRSP season is not worth it. It's like putting a Band-Aid on a wound, without examining or diagnosing it," she says. The value of retirement plan advice is also having the courage to tell the client 'Your goal won't work,'" says L'Espérance.

Diversify decumulation

Some investors may plan to sell their home and buy a joint life annuity, or take out a reverse mortgage instead, Chantal L'Espérance points out. "They will have to consider that the mortgage is sensitive to interest-rate changes, while the annuity provides a fixed income. A range of solutions provide diversification in decumulation, which is also important," L'Espérance explains. Whether they are young or 80 years old, all my clients have a plan, she adds. "That way, you don't miss anything and clients feel supported. Satisfied customers are the greatest influencers." What's more, advisors can use the plan as a way to continue the business relationship with a client's estate.

When a client reaches the decumulation phase, having a well-developed plan and professional financial advice becomes even more important, says **Amélie Laferrière**, Wealth Sales Director at **Sun Life Global Investments**. "There are several options to reduce the risk of running out of money during your lifetime. One of the first things is to educate yourself about the different risks," she says. These risks include longevity, mortality, market, inflation and health risks, she notes.

A retirement decumulation plan must provide liquidity for short-term income needs, Laferriere continues. It should include income-generating products to maintain distributions while preserving capital. She gives a few examples: "dividend-paying equity products, real estate trusts, and bonds."

MONTHLY INCOME IN CDN$ BY AGE AT ISSUE OF THE ANNUITY

Financial institution	Age 55	Age 60	Age 65	Age 70	Age 75	Age 80
BMO Insurance	465.25	497.94	544.09	601.9	646.55	717.9
Canada Life	460.36	485.09	541.1	608.95	691.83	790.66
Desjardins Financial Security	474.41	511.4	561.29	628.46	712.51	810.21
Empire Life	470.33	507.61	553.85	610.53	683.22	782.31
Equitable Life	465.61	498.32	536.93	592.07	671.43	738.61
RBC Assurances	448.48	506.25	555.47	622.29	695.00	799.36
Sun Life	458.66	498.77	555.76	624.27	715.16	803.6

*Monthly incomes based on a single life, male, 10 year guarantee and premium of $100,000 of non registered funds. Payments will commence in one month.
Source: CANNEX (prepared by CANNEX on October 3, 2022). | Table: Insurance Journal

Geoff Gibson

For non-registered amounts, the sales director explains that there are strategies for harvesting capital losses that can notably help reduce taxes paid.

Alexandre Moïse makes sure clients have a pre-established decumulation plan when they are a few years away from retirement. "We do simulations on the different registered plans, to determine the impact of decumulating one registered plan before another. The timing of the decumulation is important to trigger as little tax as possible. With 24 months to go before retirement, we'll know which accounts the clients' money will come from," he explains.

This method is important for clients who want to know the precise source of the money, how it will be deposited and in which account, the advisor continues. "Clients moving from working life to retirement are concerned about how the first year will go and how the funds will be paid out," Moïse says.

According to **Geoff Gibson**, Vice-President, Investment Product and Marketing at **Empire Life**, each client's situation is unique. "The deaccumulation solution an advisor and customer choose should be selected based on each customer's individual needs," he says.

Gibson thinks that guaranteed income provides a great floor for clients to help cover fixed expenses in retirement. Guaranteed income sources include government programs, a defined benefit pension plan, segregated funds with minimum guaranteed withdrawal, and payout annuity, he says.

"After that, advisors may want to review non-discretionary spending to see if there is an opportunity to adjust the customer's withdrawals to avoid having to redeem assets from depressed equity or fixed income investments," Gibson adds. If no opportunities are detected, Gibson says advisors should remove liquid investments from client's retirement portfolio. This could give stock or fixed-income investments time to recover from losses, he believes.

In volatile times, Alexandre Moïse will secure the first 12 to 18 months of decumulation with a portfolio that provides a fixed income, to avoid retirees having to dip into their equity investments. He recommends a diversified portfolio that provides income based on dividends from large company stocks and bonds, for example. These solutions are commonly referred to as monthly income portfolios.

➜

THE SMART WAY TO DIP INTO YOUR RETIREMENT PORTFOLIO

Pierre Lafontaine, Director of Advanced Financial and Tax Solutions at **iA Financial Group**, says that not all decumulated investments are taxed the same way. "Cashing in investments with lower taxes is key to increasing retirement income," he points out. He explains that the client will be able to make a smaller gross withdrawal, leaving a larger portion invested to take advantage of growth when the markets recover.

If a household with an average tax rate of 25 per cent needs an extra $15,000 of income this year, withdrawing that amount from a Tax-Free Savings Account (TFSA) will not trigger any taxes. In contrast, the same household would have to withdraw $20,000 from their RRSP to end up with a net $15,000. "That's $5,000 lost to pay the taxes."

TFSAs and non-registered investments should be maximized in younger clients' retirement plans. Even retirees should continue contributing to these plans if possible, Lafontaine says, because "these vehicles provide tremendous flexibility in retirement."

Pierre Lafontaine lays out the ideal decumulation sequence:

1. Mandatory withdrawals:
   a. RRIF when the client reaches age 71
   b. Employer's defined benefit pension plan
   c. Pensions from government plans such as the Régie des rentes du Québec (RRQ) and the Canada Pension Plan (CPP).
2. Possibility of income splitting with spouse:
   a. For example, if a spouse receives a taxable CPP retirement pension, the tax can be reduced by splitting the pension income with the spouse.

If additional income is required:

3. Investments subject to low or no taxes:
   a. TFSA
   b. Non-registered investments
   c. Creation of a line of credit secured by the cash value of a permanent life insurance policy or the value of a home (reverse mortgage). The borrower gradually uses this line of credit to obtain tax-free income;
   d. Standard non-registered annuity
4. Registered RRSP investments


Pierre Lafontaine

Don't panic!

Tony Guzzo urges investors approaching retirement not to be rattled by the current economic conditions. "A **Fidelity** portfolio manager often tells me that he always makes a five-year plan. A bear market usually lasts 15 months. We've been through nine of them, and I'm seeing that for the past nine months, managers are buying stocks," he says.

"I've heard that when the economy is shaky, central banks don't raise interest rates. Now they are. That means the economy is rolling. I also explain the reason for inflation to my concerned clients. Governments have raised interest rates to curb consumption. At the same time, there is labour scarcity."

After 30 years in the industry, Guzzo observes that the 60 per cent stock/40 per cent bond balanced portfolio has consistently produced an average return of between 6 per cent and 8 per cent. He estimates that a typical balanced portfolio fell 12 per cent to 15 per cent in the financial market trough at the beginning of the COVID-19 pandemic. "And we still finished 2020 with returns of 10 per cent to 12 per cent," he points out.

Pierre Lafontaine, Director of Advanced Financial and Tax Solutions at iA Financial Group describes today's climate as a perfect storm. But unlike other economic storms, he says this one is being experienced differently from household to household. "People have a lot of questions. They often don't know how to react to the current situation."

Lafontaine also sounds out his clients who are in the decumulation phase: "Are you affected by inflation and rising interest rates? To what extent?" If people have borrowed to buy a recreational vehicle and want to hit the road during the winter, it may cost them more than they expected, he continues. Others will be much less affected because they have a different lifestyle.

Whatever the case, he recommends that all his clients review their budget and expenses, and to target the debts that need to be repaid as soon as possible and the asset classes available for decumulation. Lafontaine then asks how financial market volatility affects them. Would they find it difficult to change their withdrawals because their assets are limited? Or do they have different types of assets that give them flexibility? Do they need to cash in the assets because the markets have gone down? "Most importantly, clients should not panic," Lafontaine stresses. He believes in the tried-and-true strategy of dividing baskets according to short-, medium- and long-term needs.

See what can be liquidated and secured in the short term, say the equivalent of six months to a year's income, and deposit that amount into a high-interest daily account Lafontaine says, adding that iA offers this type of account. Once the client is secure in the short term, the right decisions can be made in the medium and long term, without having to change the client's entire portfolio, he explains. "In a portfolio, there are a lot of losses on paper, but you don't have to trigger them all now. The more you can keep those assets in the portfolio over the medium to long term, the easier it will be to recover the paper losses later."

Annuities: Ugly ducklings take flight in inflationary times

Annuities are a strong bastion against rising interest rates, yet many investors steer clear of this payout product, *Insurance Journal* finds.

BY ALAIN THÉRIAULT

Tony Guzzo, founding president of financial services firm **Expertiz Gestion de patrimoine**, thinks that decumulation options that can guarantee a stable retirement income are few and far between. "Annuities are another decumulation option, but I don't sell many of them," he says. Segregated funds with guaranteed minimum withdrawals (GMWBs) used to be one of the best payout options, but these products have become less generous than when they were introduced in 2009, he says.

These products used to offer an alluring withdrawal guarantee, often of 5 per cent or more in some cases. "The *Helios* of this world are gone," he says, referring to a **Desjardins Financial Security** product that once offered a 7 per cent guarantee. "Insurers have tried to create others, but segregated funds with withdrawal guarantees are completely unlike what existed before."

Alexandre Moïse, co-founder of **MR Gestion de patrimoine et solutions collectives**, sees clients mostly skirting annuities. However, these products are becoming "slightly" appealing again owing to the recent rise in interest rates, he says. In an inflationary context, GMWBs are looking better and better, he points out. "We have clients who purchased guaranteed minimum withdrawal segregated funds a while ago. That decision is paying off this year," he says.

Many people are skittish about payout annuities because this decumulation product starts an irreversible process, says **Moshe A. Milevsky**, professor of finance at **York University**'s **Schulich School of Business**. "It is something they have to commit to right now," he adds. In fact, consumers have to part with their capital to create the annuity. Even if they die a few years later, the estate cannot recover any of the principal.

"That's one of the reasons why I became a fan of the delayed annuity. The federal government is now more favourable on that. They make the tax treatment easier. One of the innovations in the industry is the ability to buy something in your sixties that will start to pay in your eighties," Milevsky explains.

Annuities reassuring

Amélie Laferrière, Wealth Sales Director at **Sun Life Global Investments**, thinks a disbursement plan should include the use of a life annuity for a portion of the portfolio assets. "A life annuity will receive different tax treatment when non-registered amounts are involved," she points out.

Laferriere agrees that higher interest rates benefit life annuities, "but there is much more to consider." For example, annuities eliminate sequence of returns risk and longevity risk, in part, she notes.

"Clients are reassured by knowing they will receive a guaranteed amount of money each month, for the rest of their lives. This guaranteed payout can help them better cope with volatility that affects the rest of their portfolio. The proportion depends on each case, but considering 20 per cent to 30 per cent of the portfolio for a life annuity can be a good starting point," says Laferrière.

The director says that one use for a life annuity is to unlock a locked-in retirement account (LIRA). She explains that LIRAs are subject to a maximum annual amount by law, and the money is paid to the spouse upon death. "This includes common-law spouses, which can affect blended family estates," she adds.

Sun Life is one of the few insurers that allows one annuity to be issued at a time with both registered and non-registered locked-in money, Laferrière says. "An annuity cannot be registered as a TFSA, but a segregated fund product with guaranteed lifetime withdrawal benefits (GLWB) that is allowed to accumulate over the long term could provide guaranteed tax-free income at retirement through the TFSA," says the Sun Life Global Investment specialist.

John Yanchus, Director of Tax and Estate Planning for **Canada Life**, believes that inflation and interest rates should not be much of a surprise. Clients should already have a plan in place. "In which order the assets should be withdrawn depends on each client's scenario," he says.

Yanchus is convinced that annuities should be part of the plan. He realizes that many investors may prefer market-linked assets because of their potential for higher returns than what an annuity offers. "The guaranteed payouts outweigh the lesser return. The annuity is not a total solution but a part of it," he says.

High interest rates are among the factors that make an annuity income-friendly, Yanchus continues. An annuity's pricing is based on a large group, which allows holders who live longer to benefit from what he calls mortality credits.

Scott Stobo, Director of Savings and Retirement Product Development and Marketing at **Equitable Life**, considers diversification of the retirement portfolio crucial. He sees alternative investments in real estate and infrastructure as assets that can perform better in inflationary times. To add a layer of protection, he recommends using segregated funds in combination with an annuity. This product is successful at Equitable Life, he says. "We are definitely seeing more annuities in our sales than we were a year ago."

Rising interest rates are playing a role, but Stobo also emphasizes that annuity payments have become more generous in the market. "We see that annuity income in many year bands approach their highest level in a decade, in terms of income for dollar. Many are up close to 20 per cent from their low points of 2020," Stobo adds. This means that a client could purchase a $100,000 annuity today that produces an annual income of $7,000, while the same annuity purchased in early 2020 would have produced an annual income of $5,000.

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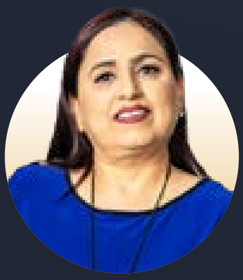

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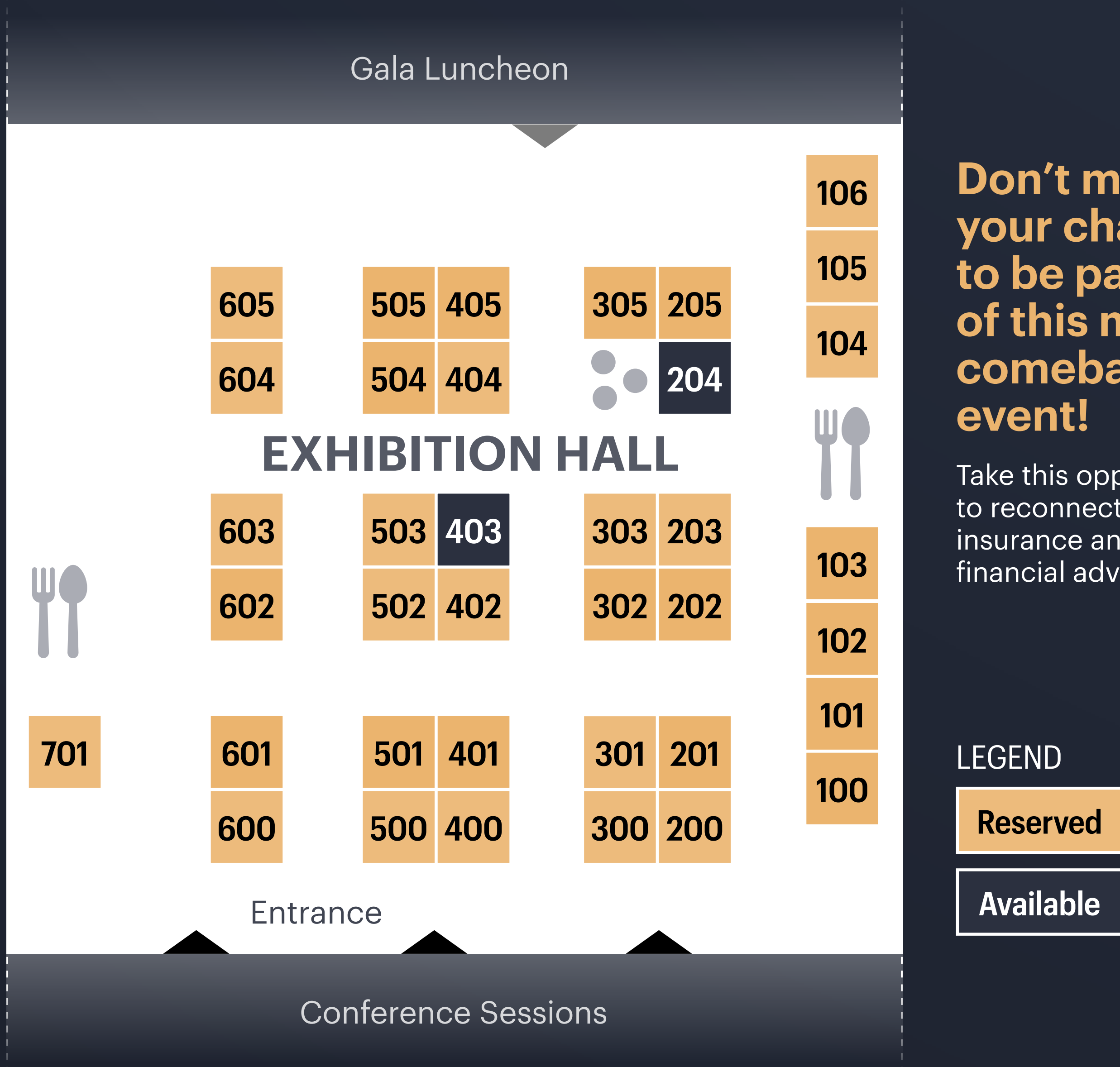

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Investing globally in challenging times

Fund managers share insights into international markets in a series of Morningstar panel discussions.

BY KATE MCCAFFERY

In the past two years, the world has seen nearly a century's worth of milestone events. Against this backdrop, asset managers and investors are being buffeted by a variety of signals.

These include signals from the geopolitical landscape to consider, public policy, consumer behaviour and technological disruption going on across various industries.

All of this can sometimes make it difficult to come up with a cohesive narrative, say asset managers. "It's one of the toughest things that anyone, an investor or a market commentator can do," says **Kate Moore**, managing director and head of thematic strategy with **BlackRock**, who adds that there are many different data signals to consider. "And it's all happening concurrently." Moore's comments were part of the **Morningstar Investment Conference** held last May.

In another presentation, **Sammy Simnegar**, portfolio manager with **Fidelity Investments** points out the confluence of important milestone events that have occurred in the past two years alone, including pandemic, civil rights activity, commodities inflation, the expansion of balance sheets, war on the European continent and inflation. "The things going on, most investors have not seen in their careers, which makes it difficult," he says. "At the same time, I think this too shall pass. Things will normalize."

Along the way, **Sarah Ketterer**, CEO of **Causeway Capital Management LLC** says the current tightening, "if it's anything like the expansion of liquidity, it may go on for a while."

"What's on the other side of this? It's very hard to know," she adds. "But what we do know is that we can't have any more massive liquidity. We're unlikely to see any more massive fiscal largess."

Across several presentations made at the conference, the subject of international investing was the focus for a variety of different asset managers and those gathered to attend the hybrid conference presentation.

View, counterview

In discussing inflation, **David Giroux**, portfolio manager with **T. Rowe Price** says very few people believe inflation will be running above eight per cent forever. He adds that there is a demographic issue that isn't talked about enough, that is, the working age population in the U.S. is growing below one per cent. "That will constrain economic growth. It will also put a little bit of upward pressure on wages," he adds.

"Productivity, which has been lagging, has been a little bit lower than we would have thought, will probably get a little bit better over the next five or ten years, whether it be some technology, some automation and investments that are going on in the economy."

In discussing pricing power, Moore says in general, large and mega cap companies have had a much better success rate of passing on higher prices, negotiating with their suppliers, "and really controlling their input costs. As we think about the inflationary impact on margins, it's not just industry or company specific, but it's really around size. I think smaller companies are

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going to have a much more challenging environment."

Discussing her positioning, Moore adds that the managers have balanced out some risk taken in technology and consumer stocks, with increased exposure to energy, industrial metals and agriculture, "All places where we actually see continuous inflation," he says.

Simnegar says he tends to avoid energy in general, "unless I see a compelling longer-term story, which I don't," he says, adding that he is bearish on oil, higher prices being a temporary phenomenon.

A look at emerging markets

Getting outside of the U.S., then, the conference's sessions also focused on international opportunities – a very challenging environment, Moore says.

From a governance and regulatory standpoint alone, there are a lot of interesting questions, says **Mike Tian**, portfolio manager with **WCM Investment Management**. "These can have a very heavy influence in terms of how a company performs for a long period of time." The formal drivers of governance, meanwhile – securities market regulators or their equivalent – he adds, are generally weaker than what North American investors might be used to.

Things he focuses on include nepotism, related party transactions, and family-owned business entanglements. "That'll give you a much better clue as far as how this company is able to treat minority shareholders, much more so than we can read in a proxy statement," he says.

"The beauty of emerging markets, there's so many different economies, so many different business models that you can expose yourself to, that you don't have to bet on one thing," says **Caroline Cai**, managing principal and portfolio manager with **Pzena Investment Management**.

Regulatory development can move far more quickly, as well, forgoing the customer commentary periods and passing of laws that is more typical in Canada and the United States if a government or sovereign wants something done.

In addition to incredible stock level volatility, Tian says emerging markets are also very retail driven. "China is an extreme case, but it's by no means the only case. (Tian also refers to Korea and Taiwan as also being very driven by retail investing.) Onshore China, I believe 85 per cent of trading is by retail investors. Which is one reason you get these crazy cycles all the time," he says.

As for why emerging markets are sensitive to rates, **Gordon Fraser**, managing director and lead portfolio manager with BlackRock says this is because the countries take capital from the world and often borrow in dollars.

"Central banks do not have monetary policy independence, they have to have one eye on what's happening at the Fed," he says. "When the dollar appreciates versus a local currency, the value of that stock, and the debt servicing costs on that debt increases in local currency terms."

The managers discussing emerging markets then turned to the importance of active management in emerging markets investing. Fraser says the reason active investing works is twofold: First, there are more levers – managers can make a country decision, a style decision and then a stock decision before deploying capital. Unlike developed countries too, where information is readily provided, in emerging markets, more time spent working on the ground doing homework is needed to get an edge.

China

Interestingly, Moore says China is one economy presenting a challenge in this respect.

"As someone who has been a student of China, who spent much of my career being a Chinese investor, the fact that I have not been to China since December 2019, nor have most international investors, means that our grasp of what's going on on the ground has pretty much disappeared," she says.

"It's harder to get an inside edge. You're certainly not getting that inside edge from policy makers. Does this mean you stay away from China? Absolutely not, but you have to have a team on the ground that's more involved in order to take some of that risk. That team also needs to have good connections and a good understanding of the regulatory environment and the impact that's going to have on the equity market. I think China's a more challenging but potentially more interesting opportunity at this point."

Simnegar, on the other hand, in a separate conversation held at the May conference, discusses why he sold his Chinese holdings. "I still have a positive view, relatively speaking, on the Chinese economy," he says, but adds that Chinese companies are likely going to be under enormous pressure to do as the government says.

"From 1980 to 2020, I think China did an exceptional job. That's probably the greatest alleviation of poverty in world history." This was done, he says, with a capitalist economy and a communist political system that was relatively hands off.

More recently however, the government's crackdown on business owners deemed to be disrespectful of the government, has sent a chill through some investment teams, as have actions to unwind initial public offerings that were effectively done deals.

"The third thing that happened is they went after the education sector," he adds. "I went from being positive about China, being overweight," he says. "Now I don't own Chinese stocks in general, because I think they're going to have to do a lot more social spending to be in the good graces of the government."

Those who do like China, however, say the closed capital market has a lot of domestic liquidity. "Highly liquid, highly diverse," Fraser says. "To that end, you can find a lot of interesting opportunities."

On deglobalization and onshoring

Despite the political will to bring supply chains closer to home, managers say one of the reasons this hasn't happened quickly or at all, despite the rhetoric, trade wars and tariffs, is that the infrastructure needed isn't as easily replaced as some might have people believe.

"It's not just about production facility, it's not just about the cost of labour, it's about the entire trade infrastructure that exists. It's about the financial system, the legal system. It's not just about the ports. China has done a really good job of building up all of the necessary soft and hard infrastructure around production and it's not easily substituted. You can't just move to Mexico and expect to have everything you need," Moore says.

"It's extremely expensive. How companies manage that expense of shifting their production, investing in new facilities, training new people, making the necessary licensing investments and well, how that shows up in their margins, I think is going to be a big question mark over the coming year. A longer term story, but one that I think will start now."

Investing themes and ideas

Simnegar meanwhile, says the trend of companies rebuilding sensitive parts of the supply chain closer to home and home markets, is a major trend. Because wages are high and workers are scarce too, he says he expects to see more automation in the future. "You want to own companies that are very much geared towards providing solutions in terms of automation, software, hardware and so forth. I think this is going to be the new trend. I think longer term it's very bearish for emerging markets and bullish for developed markets because I think there's going to be a lot more job creation in developed markets relative to emerging markets."

As for the impact this might have on margins, Ketterer says it very much depends on the business. She adds that the reason she started adding financials to his portfolios is because these don't have the same problems faced by companies depending on manufacturing supply chains. Financials were also attractively priced following the Russian invasion.

Simnegar on the other hand, owns a few banks but generally thinks they are a commoditized business. "Most people don't care where they get a loan from, they just want the lowest rate. Most people are going to put their deposits where they get the highest rate. There's very low loyalty. Someone who loves, on the other hand, Louis Vuitton or Cartier, that brand has value and they're willing to pay a premium for it. Someone's not willing to pay a premium to get a loan from Bank of America if another bank offers them a lower loan," he says. "They're going to move their money. Because of that, it's a commodity business. I tend to avoid them."

Ketterer meanwhile says stocks that do best coming out of a recession are typically cyclical. "They're very economically sensitive. Industrials, materials and financials."

Security software and cyber software opportunities were also noted as being incredibly interesting. "Two areas where every CFO or CTO would rather quit their job than quit their spend," Moore jokes.

Finally, of downside risk, Cai says an open mind about what those risks are is necessary. "You have to be very open-minded about what catastrophe looks like. That should inform both the sizing at the individual position level but also country. We always think of it as one factor – what is the one thing that can lead to a bad outcome for a wide swath of names in the portfolio and what's the downside exposure you have to that."

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GROUP PLANS

Reining in reimbursements to stave off collapse

Drug costs skyrocketed in private group plans in 2021 due to high-cost medications and growth in prescriptions for traditional drugs. As employers struggle to control these costs, experts offer several ways to mitigate the impact.

BY ALAIN THÉRIAULT | IMAGES: PEXELS

The major reports on drug trends are not very rosy at first glance. They all point to growth in spending on high-cost drugs in private group insurance plans. Each of these so-called "specialty" drugs amounts to an annual spending of $10,000 or more per claimant.

Such drugs can cost hundreds of thousands of dollars a year, **TELUS Health** said in *2022 Drug Data Trends and National Benchmarks*. The report analyzes the claims of 5.2 million certificate holders in 2021. It shows that in private group plans, the average monthly eligible amount per drug claim jumped 8.9 per cent in 2021 compared with 2020. TELUS Health notes that the increase is well above that recorded in each of the previous four years.

In the 2022 edition of its *Prescription Drug Trend Report*, **Express Scripts Canada** (ESC) says that estimated annual spending per claimant rose 6.8 per cent for specialty drugs in 2021 versus 2020. By comparison, traditional drugs saw a 3.7 per cent increase. Overall, spend per claimant was up 4.9 per cent.

Blockbuster drugs are multiplying, and novel therapeutics are emerging, Express Scripts Canada notes. "While sophisticated gene therapies and biologics promise to more effectively treat diseases, including cancer, these drugs come with price tags that are straining benefit plans," its report reads.

Despite the decline in the number of insureds submitting claims over the past two years, costs are still rising, TELUS Health points out. Four of the top 10 drug categories by claim amount are specialty drugs, the company adds.

According to our sources, TELUS Health and ESC dominate the Canadian market for digital drug payment service providers in private group insurance. TELUS Health is the primary provider in the market.

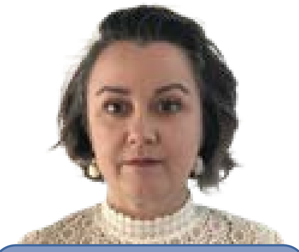
Caroline Le Pottier, consultant pharmacist at TELUS Health, mentions that the average monthly eligible amount per claim was up 8.9 per cent in 2021 versus 2020. "Fewer than two per cent of claimants submit annual eligible amounts that exceed $10,000. These claimants represent 40 per cent of the total eligible amount in 2021, compared to 33 per cent five years ago," she told *Insurance Journal*. She adds that 0.03 per cent of applicants accounted for nearly 6 per cent of the eligible amount in 2021.

TELUS Health predicts that if current trends continue, specialty drugs could make up almost half of the average eligible amount per certificate (insureds and their dependents) by 2026, or $55 of the total $111 per certificate.

A major Canadian brokerage does not expect the rise in specialty drug spending to abate. We've seen it all before, says **Mike McClenahan**, Vice-President Partner Solutions at **Benefits By Design** (BBD), a subsidiary of **People Corporation**. McClenahan is also president of the **Third Party Administrators' Association of Canada** (TPAAC).

He estimates that specialty drug spending can represent 26 per cent to 30 per cent of a plan's total spending, depending on the administrator or insurer consulted. "That percentage has been growing. No question that we're going to continue to see this broadly increasing drug costs," McClenahan says.

ClaimSecure is a third-party payor of drug claims acquired by **Canada Life** in July 2021. Vice-President Sales **Dave Wowchuk** shared a presentation with *Insurance Journal* that tracks the evolution of specialty drugs. In 2005, there were 125 specialty drugs, costing between $10,000 and $30,000. In 2012, he identified 279, with the upper range reaching $100,000. By 2020, the number of specialty drugs had grown to 630, with the high end of the range soared to $1.5 million. Wowchuk says that between 2012 and 2020, new treatments have emerged, including gene therapy and other specialty drugs launched to treat asthma and chronic urticaria.


Caroline Le Pottier

Dave Wowchuk says the growth in drug costs has been tracking inflation for years. "The big change is the increase in the utilization. People are using more drugs as they age." Wowchuk adds that the substitution of less expensive drugs and drugs that genericised into newer high-cost innovative drugs that are brand names is also a factor. "That gives you an increase in the overall cost greater than CPI," he explains.

According to the **Patented Medicine Prices Review Board** (PMPRB), sales of biologic drugs have more than tripled over the past decade in Canada. At $7.7 billion in 2018, they made up nearly one-third of all pharmaceutical sales. "This placed Canada among the top-ranked countries in the OECD in terms of per capita spending," the federal agency notes, adding that biosimilars accounted for only 1.9 per cent of Canadian biologic spending.

The situation is changing rapidly, new reports released by the PMPRB in April 2022 confirm. The agency observes an increase in the number of new drugs approved, and a large number of drugs in development. "Nearly 8,500 new medicines were under clinical evaluation globally in 2021, including 663 vaccines and therapies for the prevention and treatment of COVID-19. Over one third of those in late stages of evaluation were indicated to treat rare diseases," its website reads.

Drug life cycle

Frédéric Leblanc, Strategic Advisor, Drug Program Management, at **iA Financial Group**, agrees that innovation in treatments is quite apparent, but such trends have held sway for the past 10 years. "They are related to the life cycle of drugs, based on the innovation-driven business model of pharmaceutical companies," he says.


Frédéric Leblanc

For example, many expensive drugs now treat diseases such as cancer, inflammation and neurological ➜

problems. Leblanc says the costs are now concentrated in this category of medicines. “In the last five years, two or three drugs have come on the market to treat multiple sclerosis, and the hope is that they will slow the progression of this disease,” he says.

The picture was quite different around the year 2000. “Twenty years ago, breakthrough drugs treated cholesterol, depression, diabetes, ulcers, etc. Today, these drugs are still around, but at a fraction of the cost, because generic drugs are available,” he says. He sees the most innovation in cancer drugs.

“The range of treatments is expanding, and that’s a good thing. Many treatments increase patients’ life span and bring about a marked change in their quality of life. We’re always getting more bang for our buck. We’re spending on a different basket today than we were 10 years ago,” Leblanc points out.

Volume also counts

Some feel that the role of traditional medications in the rising cost of drugs in group plans should not be underestimated. According to the TELUS Health report, drugs for depression have moved to fourth place in the top 10 drug categories. More specifically, antidepressants climbed from fifth to third place for claimants aged 20-39 and 40-59, the report adds.

“While this is in part due to a drop in the asthma category’s share of the total eligible amount [editor’s note: including co-insurance, i.e. the portion paid by the insurer and the portion paid by the member], it also reflects ongoing mental health challenges that have likely been intensified by the pandemic,” writes **Martin Belanger**, Vice-President, Health Benefits Management for TELUS Health, in the foreword to the report.

Bélanger adds that the diabetes category is steadily gaining on rheumatoid arthritis, which has long dominated across categories based on eligible amounts. This suggests a correlation between the increased use of diabetes drugs and rising obesity rates, Belanger notes.

Caroline Le Pottier says traditional drugs are also driving costs upward, due to the volume of requests. “Expensive drugs are for a very small population. Conversely, less expensive drugs are used by a very large population, but represent a big expense in terms of volume.”

For example, Le Pottier notes that many people need care because of diabetes. “If the therapeutic costs for that category go up, it impacts a lot of patients.” She also brings up antidepressants, whose increase over the past two years is fuelled by the exceptional situation created by COVID-19. “In terms of cost, the increases may seem sustained, but the good news is that it means patients are being treated well. We shouldn’t just look at the increase in drug costs. People are getting back to work faster because they are getting good treatment,” says Le Pottier.

Paying to switch to biosimilars

Despite the rising costs of the drug portion of plans, Frédéric Leblanc remains confident. “We haven’t reached the breaking point yet,” he says. To control costs, he advises employers to change their plans’ structure. For example, the employer can adjust the co-insurance rule, restrict the list of reimbursed drugs, or limit reimbursement to the lowest price (switch to generics).

There is a significant difference between what is possible in Quebec versus the other provinces, he continues. In Quebec, the public drug insurance plan changes the game. In Quebec, group insurance must come with drug coverage, unlike in the rest of Canada. This coverage must include at least the drugs listed in the public plan.

The fact that provincial governments are taking steps to force a shift from specialty drugs to biosimilars is helping ease the pressure on private plans. The British Columbia government has been doing so since May 2019, and the Quebec government since April 2022.

TELUS Health says in its report that the impact of biosimilar biologic drugs is promising, based on data collected in British Columbia. That data show that private plans in that province have seen the share of lower-cost biosimilar drugs skyrocket from seven per cent of the eligible amount for biologics in January 2019 to 65 per cent by the end of 2021. “In terms of savings, by the end of 2021 the relative eligible amount per claimant in B.C. for a biologic was 66 per cent of what it was in January 2019,” the report states.

Caroline Le Pottier points out that most specialty drugs are biologics. “There have been sizable developments in biosimilar drugs. British Columbia has been very advanced with a strategy to control costs by switching patients from the original molecule to the biosimilar. Private insurers are also using this strategy,” she says.

She adds that other provinces have made the leap to biosimilars, but their strategies differ. British Columbia and Quebec are forcing the transition from biologic to the biosimilar equivalent even for existing patients. Some provinces and territories are doing this only for new patients, while existing patients remain on the original molecule, she says. “Provinces such as Manitoba

➜

Marie-Hélène Dugal

have a slightly more complex system that is a step up: drug therapy. The patient tries biosimilar drugs first, and switches to the biologic drug only if the biosimilar fails," she explains.

Le Pottier says the biosimilar market is booming. "For every biologic drug, there may be several biosimilars being developed. For example, the biologic drug **Humira**, intended to treat inflammatory diseases such as rheumatoid arthritis, had about 10 biosimilars by March 2022," she says.

Frédéric Leblanc emphasizes that the transition to biosimilar drugs will be a pillar of cost control for iA in 2022. There are currently 13 specialty drugs for which biosimilar versions exist, he says. Two of these biologic drugs are blockbusters: Humira and **Remicade**. "These two drugs can account for 10 per cent of a plan's spending."

Don't expect prices to drop as much as they have with generics. "It's not as easy to go after savings with biosimilars as it is with generics. The transition to a biosimilar drug is much more complicated," Leblanc explains. For example, a biologic drug is not synthesized in a lab; living cells are needed to be able to produce it, he says, adding that it is also more difficult to copy. As a result, some doctors and patients are reluctant to make the transition, he says.

Despite these obstacles, Leblanc believes that his strategy implemented in 2021 has been quite successful. "We started the transition to biosimilars and we have an excellent response so far with insured people, including a targeted and personalized communication campaign with each person who was taking a biologic for which there was a biosimilar on the market," he says.

After he's been notified by the insurer, the insured has six months to switch to the biosimilar for Humira or Remicade, for example. After that time, the insurer applies the lowest price rule.

Treatment with each of these biologicals can top $20,000 per year. Both of these drugs have biosimilars that are 40 per cent to 50 per cent cheaper. For the 13 biologic drugs targeted by iA for transition, 75 per cent of claims are for biosimilar drugs up front, Leblanc says. "If you look at the 13 products alone, the savings are as high as 40 per cent. The downward effect on a plan's overall annual costs is estimated at 4 per cent to 5 per cent."

Frédéric Leblanc mentions that insured individuals who have made the transition to biosimilars can save considerably. In his view, such an approach allows plans to obtain competitive prices and access to state-of-the-art treatments.

Marie-Hélène Dugal, Manager of Drug Management Solutions at **Medavie Blue Cross**, thinks specialty drugs are becoming increasingly important. "We see that three quarters of the drugs launched each year are specialty drugs." Even so, she does not believe this trend threatens plan viability for now. "To afford the latest scientific advances, you have to find room in the budget," she says.

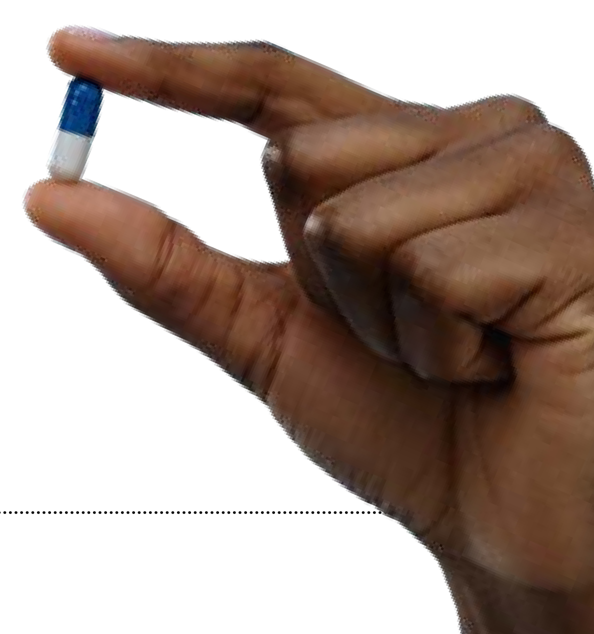
Dugal adds that labour shortages are driving companies to offer employees attractive plans, as inflation propels prices upward in many industries. "It's important to have the right balance between access to innovative drugs and cost management to ensure plan sustainability. Managing specialty drugs well requires rigorous evaluation of individual drugs," she believes.

At Medavie Blue Cross, a committee has been examining this issue for 25 years, Dugal adds. Its role is to evaluate new drugs and add those that produce the best results relative to their associated costs to plans, she explains. In the industry, this offering by insurers to customers is referred to as a managed formulary. "If we look at it from the employer's perspective, it's easier to demonstrate the value of a drug that reduces absenteeism and promotes a quicker return to work," says Dugal.

She points out, however, that the formulary strategy does not apply in Quebec, where insurers must at least cover what is on the public drug plan list of the **Régie de l'assurance maladie du Québec** (RAMQ). The **Institut national d'excellence en santé et en services sociaux** (INESSS) decides on this list and reviews it regularly to include new drugs.

"When governments add drugs to their formularies, they get a chance to negotiate prices with pharmaceutical companies. Insurers also have negotiating power, once they have evaluated a drug, and can discuss with pharmaceutical companies to see if there are issues with the price, compared with other drugs that are already covered," Marie-Hélène Dugal explains.

Corporate clients can also use other strategies to reduce their group plan costs. In addition to insurers, group insurance firms, third-party payers and group plan administrators are advising businesses on several promising avenues.



Drug cost controls: Capping expenses popular

Quebec has carved out its own path.

BY ALAIN THÉRIAULT

Mike McClenahan, Vice-President Partner Solutions at **Benefits By Design** (BBD), a subsidiary of **People Corporation**, says he supports advisors in developing benefits strategies and solutions. The *People Advantage* program is one such strategy. This program offers participants a discount on the purchase of drugs and other products through an exclusive network of pharmacists (including **Rexall**, **Pharma Plus** and **Costco**). Certificates are also available to participants who purchase glasses or contacts from **IRIS**. In addition, clients can save on speech therapy fees for children.

Capping expenses through the use of managed drug formularies is another solution commonly seen outside Quebec. **Express Scripts Canada** president **Dr. Dorian Lo** recommends this approach as a cost control method in his report on prescription drug trends. The key to reining in high costs, he says, lies in managed drug plans that balance comprehensiveness and affordability.

Managed care formularies, product-listing agreements and step therapy (where expensive drugs are reimbursed only when a less expensive drug has failed) are examples of tools that can help sponsors ensure that members have equitable access to drugs provided through sustainable plans. Also known as tiered reimbursement, this strategy is not permitted in Quebec.

Express Scripts Canada (ESC) states that for managed plans to work, three key elements must be in place:

1. Drug choices should be aligned with clinical guidelines
2. Participants must be engaged, to make informed choices
3. The plan must meet the needs of patients with complex health issues.

ESC's Dynamic Therapeutic Formulary, for example, covers certain drugs at different reimbursement levels, "encouraging doctors and patients to choose clinically effective drugs that are also affordable," Dorian Lo explains.

People Corporation offers a program called *Formulary Guard*, which allows plan sponsors and members to manage specialty drug expenses more effectively.

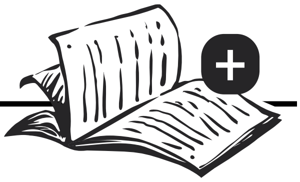
In research conducted with roughly 4,500 of its employer clients, People Corporation measured changes in drug reimbursement limits over the past 10 years in five-year increments:

Annual reimbursement limit	2011	2016	2021
None	63%	56%	49%
$1,000	6%	7%	7%
$2,500	6%	9%	9%
$5,000	3%	7%	15%
$10,000	20%	21%	20%

Source: People Corporation

ClaimSecure also offers such programs, says Vice-President Sales, **Dave Wowchuk**. For example, *Formulary Protect* and *Formulary Protect Plus* target high-cost drugs. The goal is to protect the plan from the risk of having to pay more than $10,000 for a drug. However, the health claims management firm does not offer these two programs in Quebec, where private plans are required to cover any drug listed on the Quebec public plan.

Formulary Protect and *Formulary Protect Plus do* not cover specialty drugs that are listed on a provincial or federal government formulary. *Formulary Protect Plus* will, however, cover a specialty drug that is not listed on any government formulary if the patient has attempted and failed at all government covered options and the drug meets ClaimSecure's clinical criteria.



MAGAZINE SUPPLEMENT

- **Biologics weigh on group plans**

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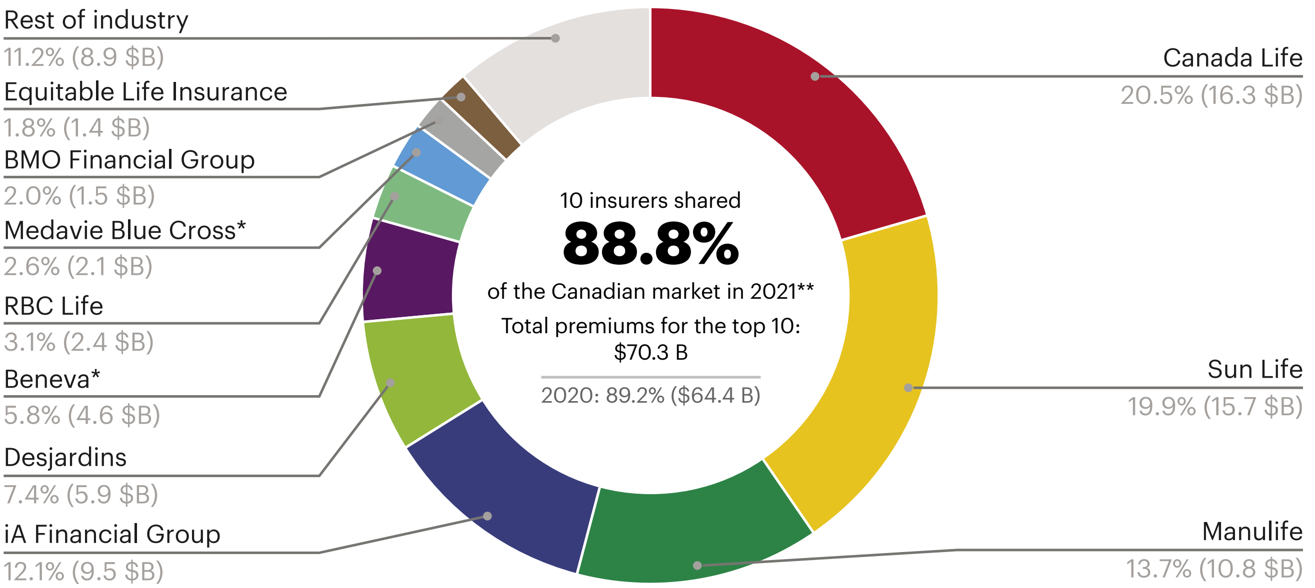
MARKET SHARE

Market concentration declines slightly

ARTICLES: AURÉLIA MORVAN
DATA COMPILATION : IAN BOLDUC
INFOGRAPHICS: MYRIAM LAUZON
ILLUSTRATION: DALL·E

THE 10 LARGEST LIFE AND HEALTH INSURERS

Concentration declined slightly in Canada in 2021. The 10 largest life and health insurers control 88.8 per cent of the market share in Canada, or $70.3 billion in premiums. This is down 0.4 percentage points from 2020, when they had an 89.2 per cent market share. They did, however, gain 1.6 points from 2019, when they held an 87.2 percent market share.
Insurers outside the Top 10 had an 11.2 per cent market share in Canada in 2021, or $8.9 billion in premiums.



Source: MSA Research; *The Insurance Company. | **As of December 31, 2021 | $B: Billions | Market shares presented in the chart have been rounded to one decimal place. As a result, the industry total may not add up to exactly 100 per cent. Compiled by Insurance Journal.

COMPOUND ANNUAL PREMIUM VOLUME GROWTH FOR THE TOP 10 LIFE AND HEALTH INSURERS IN CANADA

Canada Life, the number one ranked life insurer in Canada, has a 5-year compound annual growth rate (CAGR)* in Canadian premium volume of 1.73 per cent. By comparison the 5-year CAGR for the Canadian life and health insurance industry is 5.46 per cent. This means that the insurer was less efficient than the industry as a whole in terms of premiums from 2016 to 2021.

	1 year (2020-2021)	2 years (2019-2021)	3 years (2018-2021)	4 years (2017-2021)	5 years (2016-2021)
Canada Life	1.90%	-0.33%	0.23%	0.23%	1.73%
Sun Life	4.98%	5.60%	5.57%	7.38%	7.35%
Manulife	5.71%	3.01%	1.23%	3.17%	1.35%
iA Financial Group	20.25%	10.91%	11.89%	11.66%	10.73%
Desjardins Insurance	20.26%	9.97%	6.59%	6.47%	6.15%
Beneva**	7.97%	7.84%	8.68%	7.38%	7.01%
RBC Life	26.76%	13.96%	6.23%	4.70%	10.52%
Medavie Blue Cross**	9.09%	6.92%	5.86%	6.41%	7.03%
BMO Financial Group	49.66%	10.27%	4.96%	7.08%	10.75%
Equitable Life Insurance	12.73%	8.80%	10.43%	11.61%	12.02%
INDUSTRY OVERALL	**9.67%**	**5.35%**	**4.91%**	**5.33%**	**5.46%**

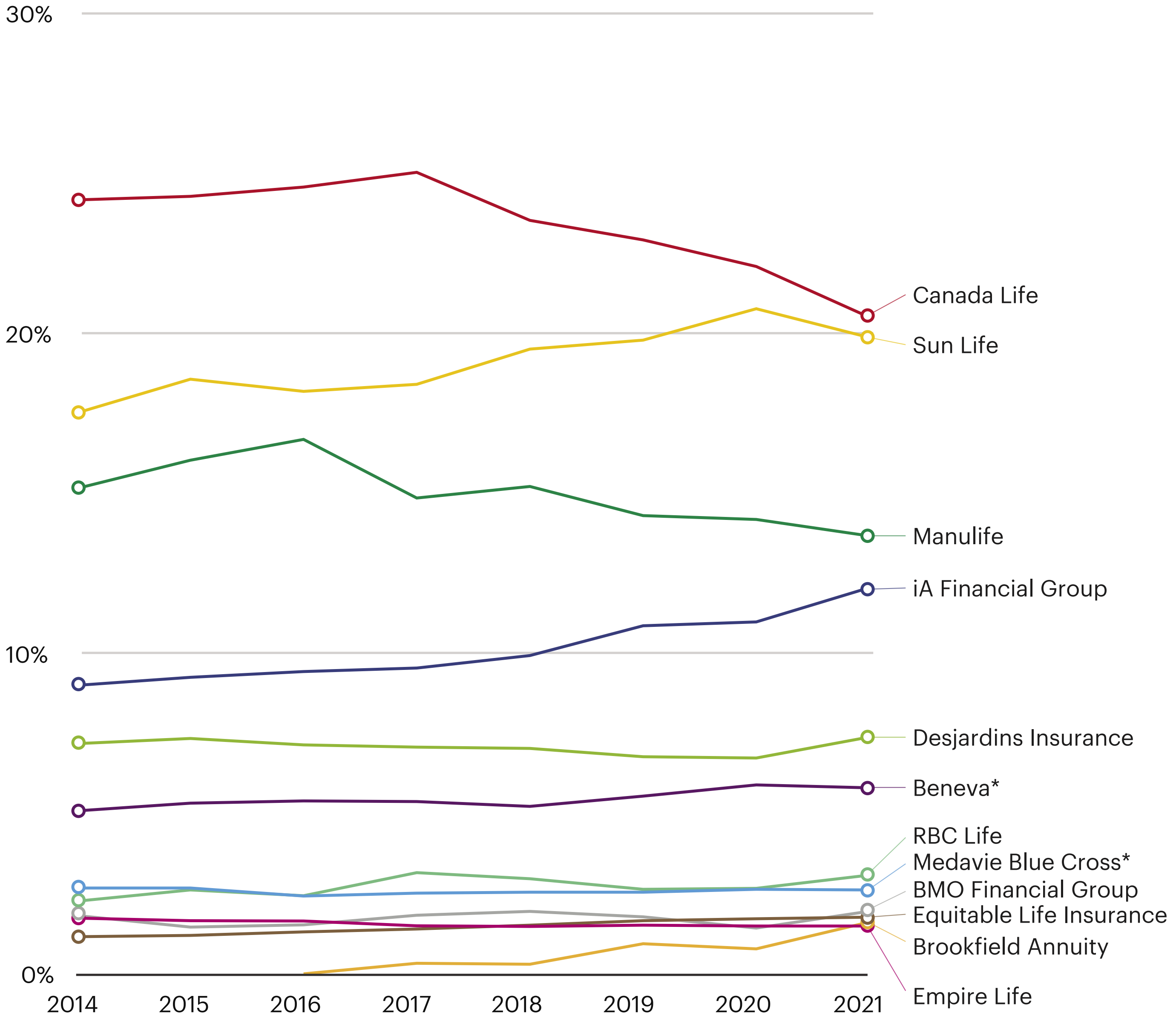
The top 10 is ranked by 2021 direct premium volume. Some companies in the table are groups.
*Investopedia defines the compound annual growth rate as "the mean annual growth rate of an investment over a specified period of time longer than one year."
Source: MSA Research; **The Insurance Company. Compiled by Insurance Journal.

CHANGES IN MARKET SHARE OF THE LARGEST LIFE AND HEALTH INSURERS IN CANADA

The top eight seats in the Top 10 of Canada's largest life and health insurers are occupied by the same insurers, in the same order, in both 2021 and 2020. In contrast, considerable jockeying occurred in the bottom two positions.

The loser of the game of musical chairs was Empire Life, which has dropped out of this ranking. The insurer had regained tenth place in 2020, after losing it in 2017. Equitable Life Insurance fell to tenth place in 2021, with a 1.77 per cent market share, from ninth place in 2020. BMO ranked ninth in 2021, with a 1.95 per cent market share. The insurer had been squeezed out of the Canadian Top 10 in 2020.

At the top of the rankings, Canada Life is seeing a decrease in market share for the fourth year in a row: From 25.03 per cent in 2017, it declined to 23.53 per cent in 2018, 22.92 per cent in 2019, 22.09 per cent in 2020, and 20.52 per cent in 2021.



Source: MSA Research; *Premium volume obtained from the insurance company; Compiled by Insurance Journal.

MAGAZINE SUPPLEMENT

- **2021 Market shares of life and health insurers in Canada**

This article is available to **PRO Level** subscribers on insurance-portal.ca

Canadian qualification pathways now available for actuaries' education

Canadian Institute of Actuaries offering pathways to graduates of 11 accredited universities in Canada.

BY SUSAN YELLIN

The **Canadian Institute of Actuaries** (CIA), whose qualification system has been largely relying on U.S.-based providers, is now taking ownership of the education of actuaries in Canada.

Joseph Gabriel, FCIA and actuary, Education at the CIA, said that since 1965 U.S.-based actuarial organizations have been taking a major role in educational activities used for qualifying actuaries in Canada.

Gabriel said that in the past 57 years the Canadian system has been using American actuarial organizations to achieve their education. He said these groups also cater to a global audience, with sections of the curriculum adapted to the Canadian environment.

In June 2021, the CIA board endorsed the development of three new qualification "pathways," including new steps for ACIA (Associate of the CIA) and FCIA (Fellow of the CIA).

Through these new pathways, qualified Fellows of other recognized actuarial organizations can use Canadian experience or a fast-track exam route to become an FCIA. There are also options for associates of other recognized actuarial organizations and affiliate routes to accommodate actuaries from around the world.

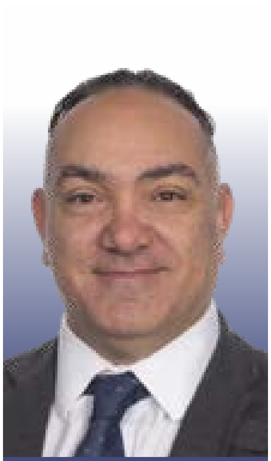
"They have to be fully qualified to meet Canadian professional requirements," said Gabriel. "We want to keep our system inclusive."

The new pathways were effective Jan. 1, 2022, with the new Canadian Pathway available for university cohorts of Fall 2021. The CIA is presently in a transition phase with the program. It expects full deployment in 2025.

The new Canadian pathway is available to graduates of 11 accredited universities in Canada, catering to about 6,300 members in Canada. For comparison, the medical professional community is made up of more than 92,000 members.

For those who want to follow the Canadian pathway there are ways to evaluate past education with the new requirements – or if they don't want to transition in they can continue with their current studies and exams and be welcomed once they get their designation from another recognized actuarial organization.

The changes being made will help improve accessibility and maintain quality, as well as trust in the profession. It will also improve the educational experience for actuaries who are getting their Canadian qualification, said Gabriel.



Joseph Gabriel

Help your older clients deal with a difficult financial environment

Some clients may need to hold off retirement until the markets improve.

BY SUSAN YELLIN

With ongoing talk about inflation and interest rates, some seniors, even those in more affluent circles, are being worn down by the negative financial news and are stretching themselves beyond their previous comfort zones, while many others should be concentrating on how they can preserve their estates and pass them on to the next generation.

Léony deGraaf Hastings, an independent certified financial planner in Burlington, ON, said many seniors have retired with debt, mainly as a result of helping out their adult children, and are feeling the pinch of rising interest rates.

Many are wondering whether they should withdraw a little more out of their RRIFs or other plans to meet their immediate cash flow needs. Others are asking deGraaf Hastings whether they should get out of some mutual funds and buy five per cent GICs for the next six months or a year.

"A lot comes down to risk tolerance," she said. "I had a client pull his LIRA out because his adult children wanted him to put the finances into cryptocurrency. I made him sign off on a waiver that I didn't agree with what he was doing and that he was taking on much too much risk but he decided to do it anyway."

She suggests to some clients who had been preparing to retire to hold off (if they can) and bring in a little more cash flow so they don't have to dip into their investments, particularly when markets are down.

deGraaf Hastings sends out a weekly newsletter and this past year she's suggested to her senior clients that they stay the course, ignore the headline noise and realize that what's happening with interest rates and markets is just part of an ordinary investment cycle.

"We have to take a down year every few years and remind clients of March 2020 when it looked like the end of the world with markets down 37 per cent – but they rallied back and posted a 20 per cent return."

Mark Halpern, CFP and CEO of **WEALTHinsurance.com**, said he's seeing a number of clients move into alternative investments, connecting to organizations that are more pension or institutional-like, such as buying a piece of a Port Authority in Los Angeles or taking a small chunk of 50,000 apartment units in Dallas.

"Those are things that help you get better returns with low risk," said Halpern.

But he said many wealthy seniors don't realize that they are the custodians of their money for the next generation and need to watch where they put their funds. Right now, said Halpern, too many wealthy seniors are partnering with **Canada Revenue Agency** (CRA), rather than sheltering money in permanent tax value insurance.

Help clients see reality

People like investing, but unfortunately, said Halpern, they're not that keen on planning. A qualified financial advisor should make these clients see reality: they may have a statement saying they are worth $20 million, but some key number crunching will unveil that they are worth only $15 million. The remaining $5 million will ultimately go to the tax department.

He gives the example of a 55-year-old business owner who will have estate taxes due on the death of the second spouse when registered money in Ontario will be taxed at 53.53 per cent, said Halpern. The government will take 26 per cent of many investments, like real estate, business appreciation or money made in public securities in Ontario. So, if a person originally invested $100,000 and it's now worth $500,000, $125,000 will go directly to the government in taxes on death. And that's not including other costs like probate taxes.

"If you do all that work you realize you're not worth as much as you think. Wouldn't it make sense to sit down with a certified financial planner and put together a snapshot of where you are and where we're going and maybe do what we can to preserve that money for your family?"

Nowadays, more people are investing in TFSAs and RRSPs because their money grows tax free. But Halpern notes that the downside to that is that people can only put in $6,000 a year. Older people need to know about permanent tax value insurance that grows tax free and can be accessed tax free, he said.

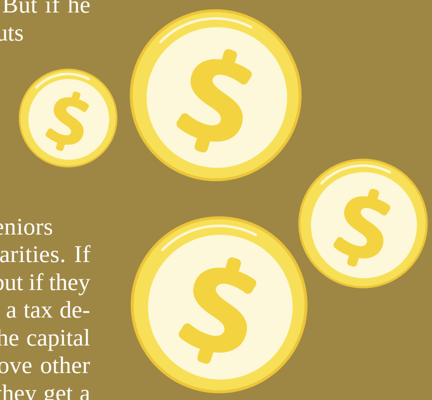
With markets going through a downturn, many people are turning to insurance because if properly structured they can buy insurance policies that won't have a negative experience. Their money is tax sheltered and on their death it's paid out tax free, said **Steve Meldrum**, CFP, a corporate insurance specialist in Medicine Hat, Alta.

Those who have their own businesses also need to take a look at what kinds of products are available to them with the least amount of taxation.

Transferring wealth

For example, Meldrum has a 42-year-old client who recently sold his business for $50 million. Now he wants to put in place concepts that will help him shelter his money or transfer the money to the next generation.

If the client invests the money, then it will create a capital gain or income taxes every year. But if he takes some of that capital immediately and puts it into an insurance policy the money will grow tax sheltered for a duration of time, said Meldrum. "Then when the parents feel that the child can manage it, they can transfer that policy with zero tax issues to the child."



A number of middle- and upper- class seniors want to leave money to their favourite charities. If they donate a security they get a tax credit, but if they do it inside a corporation, they also receive a tax deduction for the donation plus additions to the capital dividend account which allows them to move other assets out of the corporation tax free. "So, they get a double benefit."

Inflation and interest rates pose challenge for retirees

Market conditions have impacted the financial security of Canadian retirees.

BY SUSAN YELLIN

With high inflation and rising interest rates, Canadian retirees and those hoping to be retired soon are facing a "real challenge" when it comes to their finances, says the executive director of Boston-based **Natixis Center for Investor Insight**.

In an interview, **Dave Goodsell** said many retirees may be facing difficult times as some of their investments are hit with both rising interest rates and higher inflation, forcing many retirees to take money out of an increasingly smaller pool.

"It's a challenge to replenish the assets there because you're older. You don't necessarily have the time for it to rebuild and you certainly don't have the risk appetite to pursue greater returns as well," said Goodsell. "So, it's a real challenge for those looking to retire this year. That being said, there are years when markets are up and it's less of a challenge, but this does strike a big chord for us."

In its Global Retirement Index 2022, Canada fell to 15th place from 10th spot on the financial security and well being of retirees, mainly because of market conditions, tax pressures and an aging population.

"In a year on track to be one of the worst on record to retire, the market downturn coupled with runaway inflation and successive interest rate hikes poses an immediate threat to retirees and suggests the need for new thinking about retirement planning and policy," said a Natixis news release.

For Quality of Life, Canada maintained its 16th place ranking in the Natixis survey, and held on to its ranking in the health sub-index.

One of the major issues facing many sectors, is the growing percentage of seniors in Canada. A recent **Fraser Institute** study indicates the share of Canada's population aged 65 or older increased from 14.1 per cent in 2010 to 19 per cent in 2022.

Goodsell said he was told by an advisor in Ireland that some people who had hoped to be retired by now are holding off until the worldwide financial situations change.

According to the Natixis survey, the biggest retirement planning mistakes Canadian investors make are:

- Underestimating how long they will live: 65%
- Underestimating the impact of inflation: 61%
- Forgetting to factor in healthcare costs: 60%
- Not understanding sources of income in retirement: 51%
- Being too conservative in investments: 48%

"Many challenges appear to be short term, but it is probably the best opportunity for a financial advisor to have this conversation with clients while it's fresh in people's minds," said Goodsell. One of the things that investors want from financial advisors is guidance on income as well as financial planning, he said.

He added that Millennials, those born between 1981 and 1996, are already interested in retirement income planning.

How to get the Top of the Table mindset

Following three key principles, can help you achieve sales success.

BY SIM GAKHAR

No one gets to Top of the Table without a Top of the Table Mindset. For me, there have been three core mindsets that have made all the difference. It doesn't happen overnight, but when you start with these three principles, you are on your journey to the top.

Break it to fix it: If you aren't achieving at the level you want, then you must make changes. I say you must break what you are doing today and fix it to fit to the level you want. This means you "break it to fix it". Breaking means breaking with your old ideas. There are no new ideas but there are a lot of great old ideas.

All you need to do is adopt the ideas that other successful advisors use and then adapt them to suit your business to reach the new level of performance you want. This is reusing and recycling proven successful ideas in your practice. Borrow successful ideas and make them yours. For instance, my initial mindset was to reach as many people as I could on the individual side and write as many applications as possible. Then when I discovered the concept of corporate-owned insurance, all I had to do was use the same mindset but apply it to the business needs of the same people. This switch to the corporate side was a game changer as the new corporate mindset resulted in writing fewer but much bigger policies and reaching the top.

I broke with my original mindset to fix it. I broke the mindset of multiple policies with smaller premiums and approached the same clients on the corporate side of the business to write bigger premium policies. The net performance gain was a production multiplier.

My most impactful mindset change to consider myself a "problem solver" rather than a "prospect finder". I positioned myself in my marketplace on social media and with centres-of-influence as the advisor to contact for answers to tax problems, estate planning concerns, or when wanting to grow corporate retained earnings tax-free. I positioned myself as the professional who provides effective solutions to specific problems just like accountants or lawyers. Then I connected with them to promote the benefit of working with me. Now they are my "finders" and I am their "solver".

Reach for weird: No one gets anywhere by being the same as the next guy. We need to stand out in the crowd if we want to be picked out of the crowd. I like to say "reach for weird" – something very different than is expected – something that you haven't seen done by any competitor. When you break the mould, you create new opportunities that no one else has seen. There are more than 3500 members of MDRT's Top of the Table and that means that there are more than 3500 ways to achieve that production level. When you do something different, you reach for weird and open the door to your personal way to the top.

For me, it felt weird asking tax questions and positioning myself as a professional because I always saw myself as an insurance advisor going house to house selling insurance. But the moment I learned how to position myself as a professional, it was a game changer. I was in a different mindset completely. Now I have accountants and lawyers approaching me to help their clients as if I was just another professional that every client needed. Weird, but good.

Fall seven times, stand up eight: It's an old Japanese proverb but it is the only way to make it to the top in the business. No one falls into top success. They stand up to it. The greatest mindset we can have is to understand that the road to the top is rough and rocky and everyone trips now and again. And it doesn't matter how many times you fall, what matters is how many times you get back up.

You can never fail, if you promise yourself that you will always get up one more time than you fall. Always strive for more and keep your focus on your vision and not on your journey. The mindset reset was not a one-day switch for me. There were many times I faced rejection. Many times, I felt like I couldn't do it. Many times, I felt like that it's not me. Many times, I felt that I was not capable. Many times, I felt that I was not qualified to have this tax knowledge and sell corporately owned policies.

But then came another gamechanger for me, I was introduced to **Dan Sullivan**'s book *Who Not How*. That book taught me that I didn't need to know everything, I just had to collaborate with the specialist that did. Trust me, I fell many times, but I kept standing up. In the end, I was running.

These core mindsets changed me and my practice and took me to the top. I borrowed the ideas of successful advisors; fixed them to suit my practice; got weird by thinking outside the box; and kept my focus on the performance level I wanted to reach by standing again each time I fell. This got me where I am today. Instill these rules into your mind and you will achieve beyond your wildest imagination. I did.

—

__Sim Gakhar__, BSc, BEd, MA, CHS, EPC, CEA, MFA-P, RWM, is a Markam, Ontario-based Life Insurance Agent & Investments Advisor. She is a five-year member of the __Million Dollar Round Table__ with two Top of the Table honours and is currently MDRT's Country Chair for Canada. She is also an active member of __Advocis__, the Financial Advisors Association of Canada and CALU, the __Conference for Advanced Life Underwriting__.

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Would you like to share your insight or expertise with other advisors by writing an article for Advisor to Advisor?

If so, please send your idea to Donna Glasgow, Editor-in-Chief of the *Insurance Journal* at donna.glasgow@insurance-journal.ca

by **JIM RUTA**

Better Than Facts and Figures

Question: How can I get technical concepts across to my clients without resorting to facts and figures, having their eyes glaze over, and losing the sale?

"Life insurance converts the bricks and mortar of your business into dollars and cents for your family." said legend **Ben Feldman** when he was explaining the concept of business insurance. He ended up selling billions of face amount.

Canadian industry icon, **Bruce Etherington** explained life insurance as "lifeboats and legacies". He is still adding to the billions of face amount he's sold in his life.

George Sigurdson from Winnipeg describes financial security as a series of buckets to fill. He talks about product selection as going through stages of life – Learning, Earning, Yearning, and Burning.
Van Mueller asks questions that suggest stories: "Would you rather leave your family a home or a mortgage?"

The late **Roger Zener** wondered "what would happen to your family if you became part of the grill work on a Mac Truck on the way home one day?" These are "Sales Stories" and there are many variations of them, but they are all the same in one way. They are clever, compelling, and conversational ways of describing the benefit of doing something (like buying life insurance) without resorting to facts and figures.

Sales stories engage the imagination and drive home the value of the product by associating it with familiar ideas and language. They convert confusing facts and figures into convincing stories. Think of them like "explainer videos" in words not drawings.

For instance, I coach advisors to talk about what life insurance does and not about what it is. No one wants life insurance per se, but they do want what it does for you, your family, or your business.

We say that there are 4 ways prudent investors use life insurance: As "short-term tax-free cash at death" – for the responsibilities and obligations you feel that expire, like a mortgage. As "long-term tax-free cash at death" – for responsibilities and obligations than never expire – like final medical, burial, and funeral expenses and taxes on the unspent amounts in a RRIF when both spouses are gone. As "long-term tax-free cash for life" – a place to "stash the cash" away from the tax man so you can augment retirement income or help keep you out of a nursing home. And finally, for those with a long-term view, as "long-term tax-free cash for family nobility". This is keeping life insurance long after the original need has passed but you want to leave money to change the financial trajectory of your beloved family forever so no one never need to life paycheque to paycheque again. Think of that as great ancestor insurance.

This tells about what life insurance can do but we never had to use words like Term Insurance, Non-Par Whole Life or Term to 100, Universal Life, or Cash Value Life Insurance. Sales stories engage the prospect in the benefits they can enjoy and not in the details that confuse them.

There are many benefits of using sales stories:

1. Sales Stories can be your business crusade to convert leads into prospects. They can be prospecting stories to engage people so they can see themselves solving their problems with your help.
2. They help you be easier to do business with because stories translate technical language into a personal experience that's easy to understand and use. Sales stories help anyone understand so anyone can buy.
3. Short sales stories are great for compelling Social Media posts as a simple way to attract interest and build your brand in your marketplace.
4. Stories can help you make important points in sales interviews without turning to facts and figures. The story can seal the deal by making you real and relatable.
5. Rather than going to a technical explanation, use a sales story to help explain a benefit of the product in a simple and friendly way. Be helpful by telling a story that translates the details.
6. Use a sales story to answer objections in a non-confrontational way like, "Your question reminds me of a story..." Then the sales story answers the objection.
7. Being known as an interesting, insightful, and inspirational storyteller helps attract prestige introductions. When you are fun to be with, people have less of a problem finding people for you to be with.
8. They help you multiply your performance and move into new markets. Appropriate sales stories help explain what you do to Centers of Influence. That makes your business easier to understand and remember and easier to recommend, introduce, and refer.
9. Story tellers build loyalty with their clients because the emotions they elicit build stronger bonds with their clients. People stick with storytellers.

Sales stories are the opposite of jargon and have the opposite effect too. They attract results rather than repel them. They are a very practical and helpful way to help you build your business without resorting to technical details.

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For more information on the tools to use to build your brand, check out Advisorcraft.com.

Jim Ruta's mission is simple – to preserve, promote and propel the financial advisor business. A former insurance advisor and executive manager of a 250-advisor agency, Jim is a highly regarded coach, author, podcaster and keynote speaker. He has spoken 4 times at the MDRT Annual Meeting including the Main Platform. Jim Ruta is an Executive Coach and Keynote speaker specializing in life insurance advisors and leaders. He works with top advisors around the world and re-energizes audiences with his deep insight and passion.

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